PROPOSED UNITED STATES-ISRAEL FREE TRADE AREA

HEARINGS

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

NINETY-EIGHTH CONGRESS

SECOND SESSION

MAY 22; AND JUNE 13, 14, 1984

Serial 98–72

Printed for the use of the Committee on Ways and Means

U.S. GOVERNMENT PRINTING OFFICE
36-904 O WASHINGTON : 1984

H781-52

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PROPOSED UNITED STATES-ISRAEL FREE TRADE AREA

TUESDAY, MAY 22, 1984

House of Representatives,
Committee on Ways and Means,
Subcommittee on Trade,
Washington, DC.

The subcommittee met at 9:45 a.m., pursuant to notice, in room 1100, Longworth House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

[Press releases announcing the hearings and background statistics compiled by the subcommittee follow:]

[Press release No. 39 of Friday, May 11, 1984]

The Honorable Sam M. Gibbons (D., Fla.), Chairman, Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, Announces Hearings on Proposed United States-Israel Free Trade Area

The Honorable Sam M. Gibbons (D., Fla.), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, U.S. House of Representatives, today announced that the Subcommittee will hold public hearings on the proposed U.S.-Israel free trade area on Tuesday, May 22, 1984, and, if necessary, on Wednesday, May 23. The hearings will be held in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 9:30 a.m. Witnesses and other interested persons should be advised, however, that all or part of this hearing will be subject to postponement if the legislative schedule requires or House and Senate conferees are required to meet on H.R. 4170, The Tax Reform Act of 1984.

On November 29, 1983, President Reagan and Israeli Prime Minister Shamir agreed to proceed with bilateral negotiations on a U.S.-Israel free trade area, following up an Israeli government original proposal in 1981. Discussions have been taking place between the two governments since January 1984 on the elements of an agreement. The purpose of the hearings will be to receive views on such an arrangement and on H.R. 5377, authorizing the President to enter into, and to proclaim modifications in tariff treatment and import restrictions necessary to implement, a reciprocal and mutually advantageous free trade agreement with Israel.

DETAILS FOR SUBMISSION OF REQUESTS TO BE HEARD

Requests to be heard must be made by telephone to Harriett Lawler [telephone (202) 225-3627] by noon, Thursday, May 17, 1984. The request should be followed by a formal written request addressed to John J. Salmon, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, Room 1102 Longworth House Office Building, Washington, D.C. 20515.

In view of the limited time available to hear witnesses, the Subcommittee may not be able to accommodate all requests to be heard. Those persons and organizations not scheduled for an oral appearance will be encouraged to submit written statements for the record of the hearing. All persons requesting to be heard, whether they are scheduled for oral testimony or not, will be notified as soon as possible after the filing deadline.

It is urged that persons and organizations having a common position make every effort to designate one spokesman to represent them in order for the Subcommittee to hear as many points of view as possible. Time for oral presentations will be strictly limited with the understanding that a more detailed statement may be included in the printed record of the hearing. This process will afford more time for Members to question witnesses. In addition, witnesses may be grouped as panelists with strict time limitations for each panelist.

In order to assure the most productive use of the limited amount of time available for questions, witnesses appearing before the Subcommittee are required to submit 200 copies of their prepared statements to the full Committee office, Room 1102 Longworth House Office Building, at least 24 hours in advance of their scheduled appearances.

Requests to be heard must contain the following information:

1. The name, full address, and capacity in which the witness will appear, as well as a telephone number where he or his designated representative may be reached;
2. A list of any clients or persons, or any organization for whom the witness appears; and
3. A topical outline or summary of the comments and recommendations in the full statement.

The above information should also be incorporated in the prepared statements to be presented in person as well as those filed for the printed record of the hearing.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE

Persons submitting a written statement in lieu of a personal appearance should submit at least six (6) copies of their statement, by the close of business Friday, May 25, 1984, to John J. Salmon, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, Room 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements for the record of the printed hearing wish to have their statements distributed to the press and the interested public, they may provide 100 additional copies for this purpose to the Committee office before the hearing begins.

[Press release of Monday, May 21, 1984]

The Honorable Sam M. Gibbons (D., Fla.), Chairman, Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, Announces Revised Schedule for Hearings on Proposed United States-Israel Free Trade Area

The Honorable Sam M. Gibbons (D., Fla.), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, U.S. House of Representatives, today announced a revised schedule for public hearings on the proposed U.S.-Israel free trade area (previously announced in Subcommittee press release #39). Due to the large number of requests to testify and the heavy legislative schedule, the hearings will be held on Tuesday, May 22, 1984, beginning at 9:45 a.m. in the main Committee hearing room, 1100 Longworth House Office Building, to receive testimony only from the following witnesses:

U.S. Trade Representative: Robert E. Lighthizer, Deputy U.S. Trade Representative.

U.S. Department of Agriculture: Alan Tracy, Deputy Under Secretary for International Affairs and Commodity Programs.

PANEL

American Israel Public Affairs Committee: Thomas A. Dine, Executive Director.

American-Israel Chamber of Commerce and Industry, Inc.: Lee W. Greenberg, Director of Trade Policy, National Office, and Executive Vice President, Western Region; accompanied by Sidney N. Weiss, Trade Counsel.

American Federation of Labor-Congress of Industrial Organizations (AFL-CIO): Stephen Koplan, Legislative Representative, Department of Legislation.

The hearing originally scheduled for Wednesday, May 23, 1984, is postponed until the earliest possible date. Other witnesses who have requested to appear will be scheduled at that time.

SUMMARY OF U.S. TRADE WITH ISRAEL (1982) ***

(thousands of dollars)

U.S. Imports from Israel

Total U.S. Imports from Israel	$1,162,129	
MFN Free	640,731	(55%)
Diamonds (64% of MFN free)	(412,036)	
GSP Free	403,478	(35%)
MFN Dutiable	117,919	(10%)

Major Dutiable Products: textiles, footwear, jewelry, citrus, cut flowers, chemicals

U.S. Exports to Israel

Total U.S. Exports to Israel	$1,559,619	
MFN Free	344,000	(22%)
MFN Dutiable	354,000	(23%)
GSP Understanding	354,000	(23%)
less GSP Understanding GATT Bound	(198,000)	(13%)
Total Unbound Imports *** (free and dutiable)	705,000	(45%)

Major dutiable products: motor vehicles, electrical goods and apparatus, kraftliner, synthetic yarns, automatic data processing machines, fasteners, medical apparatus anc controlling instruments

*** Figures exclude military trade

*** Israel estimates approximately $400,000 in U.S. agricultural products entered Israel duty free in 1983 through government purchase

Chairman **Gibbons**. Good morning. This is a hearing of the Subcommittee on Trade of the Committee on Ways and Means, and we are here to talk about a bill that would grant to the President the authority to negotiate a two-way free trade zone, or as close to that as possible, on a reciprocal basis with the State of Israel.

I think it is an important move. I commend Mr. Downey and the other cosponsors of this bill. I am proud to join them and to help push this legislation.

If there is any Israel-Arab conflict here, I want to defuse that right away. I want to tell everyone that I will be happy to introduce a bill that does the same thing for any Arab nation or, in fact, any other nation that wants to enter into that kind of negotiation with the United States.

I think it is a healthy thing and I am ready to get started.

Unfortunately, we have had such a number of requests for people to testify we have had to limit the number today, and because of the press of business that has fallen particularly on this member and I am sure on other members, we have had to postpone further hearings until sometime in early June. We will get back to this subject as quickly as we can and hear the rest of the witnesses.

If witnesses do not wish to testify and just wish to put a statement in the record, it will be welcomed. It will be read and it will be studied.

We welcome all of you here. We want to hear from you. Let's get going.

Mr. Downey, would you like to be recognized to make any observations?

Mr. **Downey**. No, Mr. Chairman, I think you have made some important observations.

This legislation is in the U.S. interests and I think it will help our good friend and trading partner, Israel, and I hope that the witnesses address, particularly concern the overriding question of why we should do this.

Chairman **Gibbons**. Mr. Frenzel, do you want to make a statement?

Mr. **Frenzel**. No comment, Mr. Chairman.

Chairman **Gibbons**. Fine. Let's get going.

Mr. **Lighthizer**. Mr. Chairman, thank you for the opportunity to present to the——

Chairman **Gibbons**. I didn't introduce you, so you better introduce yourself, Mr. Lighthizer.

STATEMENT OF HON. ROBERT E. LIGHTHIZER, DEPUTY U.S. TRADE REPRESENTATIVE

Mr. **Lighthizer**. I apologize for that.

Chairman **Gibbons**. No, I apologize.

Mr. **Lighthizer**. It comes from being too comfortable here.

I am Robert Lighthizer, Deputy U.S. Trade Representative. With your permission, I would like to read a brief statement, then have my longer statement included in the record.

President Reagan and Israeli Prime Minister Shamir agreed last November to begin discussions toward negotiation of a free trade area between our two countries. A free trade area is an agreement between two or more countries to eliminate tariff and nontariff barriers on substantially all trade between them. I emphasize the reference to substantially all trade because of the GATT requirement that a free trade area affect virtually all the trade between the countries involved.

It is historically significant that we embark toward negotiation on such an agreement. This will be the first such arrangement negotiated in our history and we take this step in anticipation that U.S. exports will grow as a result.

The economic benefits that the United States will gain by such an arrangement are meaningful. An analysis of trade statistics reveal our exports are substantially more affected by trade barriers than Israeli exports to us.

In 1983, we imported $1.3 billion in products from Israel. About 90 percent of these imports entered duty-free either because the MFN tariff rate was zero or the product was under GSP. In contrast, 40 to 45 percent of our exports to Israel, $1.7 billion last year, excluding military shipments, were charged to duty. In 1982, that duty averaged 10.3 percent.

Our objective is to negotiate elimination of these relatively high Israeli tariff and nontariff barriers to our exports.

In exchange for elimination of these barriers, we will commit ourselves to essentially eliminate duties on 10 percent of our imports from Israel and provide secure access on products which Israel currently sells in the U.S. market duty-free under GSP.

Clearly, we stand to gain from such an arrangement.

To negotiate and implement the United States-Israeli free trade arrangement, the administration proposes expanding section 102 authority of the 1974 act. Currently, the President has the authority under section 102 to negotiate agreements modifying nontariff barriers.

This authority is subject to a congressional approval as well as advice by the International Trade Commission and the private sector. We propose expanding this authority to allow the President on a limited basis to seek new opportunities for trade expansion by negotiating a reduction and elimination of tariff and nontariff barriers to our exports in a number of countries.

We propose using expanded 102 authority for several important reasons. First, by using 102, the President will be able to negotiate trade liberalizing agreements within the well-known safeguards set in existing law, especially congressional approval.

Second, using expanded 102 authority rather than authority to negotiate solely with Israel, will allow us to negotiate with other countries. Canada, for one, has made a proposal for such an arrangement, which we currently have under review.

Finally, Israel's specific authority, rather than broad authority, will present foreign policy problems to the United States. Israel specific authority will send a clear signal to Canada and other countries that the United States is not prepared to negotiate with them.

I might add that a majority of the full Ways and Means Committee members have written to the USTR, urging we negotiate tariff reductions with foreign governments, other than Israel, on a variety of products.

Mr. Chairman, we appreciate the opportunity to present this proposal to you and the subcommittee. Please be assured of our desire to work closely with you as we negotiate and implement any trade agreement under this authority.

Now I would be happy to respond to any questions.

Chairman GIBBONS. Well, thank you.

[The prepared statement follows:]

STATEMENT OF AMBASSADOR ROBERT E. LIGHTHIZER, DEPUTY U.S. TRADE REPRESENTATIVE

Mr. Chairman, I want to thank the Subcommittee for providing the opportunity to discuss this important new trade initiative. President Reagan and Israeli Prime Minister Shamir agreed on November 29, 1983, to begin discussions between our two countries on the establishment of a two-way free trade area between the United States and Israel.

This is the first time that the United States has negotiated an agreement of this type. We do have experience in undertaking more limited free trade arrangements, such as the one-way free trade area established by the Caribbean Basin Economic Recovery Act, and the free trade agreement with Canada in the automobile sector. But we have never before attempted an agreement which fully meets the definition of a free trade area in terms of the scope and the degree of reciprocal access which is contemplated in our agreement with Israel.

A free trade area (FTA) is formed when two or more countries eliminate duties and non-tariff barriers on substantially all trade between them. Many countries are linked today by such free trade arrangements, although these agreements vary substantially in terms of product coverage, number of participants, and approach to staging of tariff concessions leading to duty-free treatment.

The agreement we contemplate with Israel will differ from these other free trade areas in that we expect to include services and investment in addition to traditional trade in goods. This comprehensive approach will further liberalize our bilateral relations as well as establish the precedent of including these important areas in our bilateral and multilateral agreements.

I would like to describe to you in more detail what we have been discussing with the Government of Israel, the economic merits of this initiative, and the status of our discussions. Finally, I have some comments with respect to the type of negotiating authority the Administration seeks in order to implement this proposed agreement.

The Government of Israel proposed the idea of a U.S.-Israel free trade area in 1981. At that time, interagency work began on determining the benefits of such a proposal to the United States. We also initiated informal discussions with the Government of Egypt to determine their interest in a free trade area. It was the view of Egyptian officials that establishment of a free trade area was not in their economic interest at that time.

The discussions with Israel on the free trade area were postponed for several years. However, last year, Israeli officials again approached us and asked that we reconsider the proposal. Further interagency work was undertaken and this fall, with the concurrence of the Trade Policy Committee, Ambassador Brock recommended to President Reagan that the U.S. agree to begin negotiations with Israel on a two-way free trade area.

Economic Basis for the U.S.-Israel Free Trade Area

Total U.S. imports from Israel in 1983 were $1.3 billion, while total U.S. exports to Israel last year (excluding military shipments) were $1.7 billion. About 90 percent of U.S. imports from Israel currently enter the U.S. duty-free, either on a MFN or GSP basis. Major U.S. imports from Israel include cut diamonds, tomato products, resistors, internal combustion engines, electrical articles, and high fashion apparel products such as swimwear.

On the export side, about 40-45 percent of our exports to Israel are dutiable. In 1982, these exports faced Israeli tariffs averaging about 10.3 percent. However, U.S. products are increasingly at a competitive disadvantage in the $8 billion

Israeli market as a result of the EC-Israel Free Trade Agreement. In the absence of a free trade area between the U.S. and Israel, the tariff differential between European and American goods would increase rapidly in the next few years as final Israeli concessions to the EC are phased in. This will be the case particularly in the industrial sector, where our exports directly parallel those of the EC. We also believe that our agricultural exports could increase under an FTA, particularly given the relatively limited agricultural coverage of the EC-Israel Free Trade Area. The U.S. now enjoys a trade surplus with Israel in agricultural products. In 1983, our total agricultural exports to Israel were $297 million, and U.S. imports of agricultural goods from Israel were $50.5 million. At present, our most significant exports to Israel include grains, soybeans, kraft paper, textile fibers, tungsten, engines and engine parts, computers and other office machinery, electronic and electrical equipment, and transportation equipment.

In addition to facing high duties on a wide range of products entering the Israeli market, U.S. firms currently encounter numerous Israeli non-tariff barriers (e.g., import licensing requirements and an import deposit scheme). We believe that the free trade agreement provides the opportunity to eliminate many of these barriers.

In sum, the advantage to the U.S. of negotiating a free trade area with Israel is that we stand to gain unrestricted access to an $8 billion Israeli market in which a high proportion of imports are dutiable and in which many non-tariff barriers exist, in exchange for eliminating duties on essentially 10 percent of our own imports from Israel and providing secure access on products currently covered by GSP.

Some people may claim that this still does not look like a fair deal when one considers Israeli access to our large market. However, the fact of the matter is that the size of the Israeli economy effectively limits their ability to take undue advantage of the U.S. market. The Israeli labor force is limited in size, and labor costs are significantly higher than in other developing countries. They undoubtedly will increase their exports to the U.S. under a free trade area, but they are in no position to flood our market with low cost, labor intensive products.

It is expected that the U.S.-Israel Free Trade Area would be somewhat similar to the agreement Israel has with the European Community, although with considerably expanded coverage. However, unlike the EC-Israel agreement, the agreement the U.S. would enter into would be consistent with the requirements of Article XXIV of the GATT.

The GATT permits free trade areas or customs unions as a deviation from Article I (Most Favored Nation Treatment) under certain conditions. Article XXIV requires that free trade areas must be designed "to facilitate trade between the constituent territories and not to raise barriers to the trade of other contracting parties with such territories." Further, Article XXIV stipulates that free trade areas must cover "substantially all trade" between the parties and must be staged into effect within a "reasonable" period of time.

Under the terms of the EC-Israel Agreement, imports of industrial products from Israel were granted duty-free entry after July 1, 1977, except for certain sensitive products on which full EC concessions were delayed until December 31, 1979. Israel, for its part, eliminated duties on about 60 percent of its industrial imports from the EC in five stages by January 1, 1980. Duty-free treatment for the remainder of industrial merchandise was originally scheduled to be staged in by 1985, with two possible two-year extensions granted to Israel at specific stages. Israel has asked for both of these extensions and will eliminate duties on all industrial products by January 1, 1989.

The EC-Israel agreement also includes rather detailed provisions on safeguards, countervailing duties, antidumping, rules of origin, national security and consultation and dispute settlement. Our own agreement would likely contain similar provisions.

Product Coverage and Private Sector Involvement

We have not yet discussed specifics of product coverage or possible staging of concessions with the Israelis. To date, we only have agreed in principle that we should strive to satisfy the GATT criterion of covering "substantially all" trade.

We are being very careful in approaching these negotiations to ensure that all citizens have ample opportunity to submit their views on the free trade area concept in general, as well as on the eligibility of particular products or sectors. The interagency Trade Policy Staff Committee (TPSC) held public hearings on the proposal here in Washington on April 12 and 13. In conjunction with Ambassador Brock's request to the U.S. International Trade Commission (USITC) to furnish advice on the probable economic effects of eliminating duties on all imports from Israel, the USITC held additional public hearings on April 10 and 11. The USITC will submit its report to USTR later this month, and it will include advice on all items in the U.S. Tariff Schedule. We will be happy to discuss the results of the USITC report with the members of this Subcommittee.

Through the TPSC public hearings, we received testimony both for and against the free trade area concept as well as the views of a number of producing interests. A wide range of industries were represented at these interagency hearings. Testimony on specific product categories, in conjunction with the USITC advice on all imports, will be reviewed carefully as we prepare for negotiations on the product coverage of the prospective U.S.-Israel agreement.

In addition, throughout this process, we have sought the views of our private sector advisers, including those for services and investment.

We also welcome Congressional views on the appropriate elements to be included in the agreement. Our office will be happy to meet with any members on this issue and, in fact, already we have received very useful guidance from several members of Congress. Needless to say, close consultation with this Subcommittee and with your colleagues throughout the negotiating process is essential to the success of the negotiations.

Status of Discussions

We began our formal negotiations on the free trade area with Israel on January 17 in Washington. This first round of discussions focused heavily on the overall framework of an agreement, on the kinds of provisions which would have to be included, and on the manner in which we would proceed with future negotiations. Since then we have had two rounds of discussions, the most recent of which took place in Israel last week. As a result of these discussions, both sides have much closer understandings of the issues that they must address in order to have a mutually acceptable agreement.

We believe that our discussions with the Israelis have progressed well, and we are cautiously optimistic that we can achieve agreement within the next few months. As I mentioned earlier, in accordance with U.S. procedural and legal requirements, we have avoided to date any negotiations on product coverage or staging of concessions. We have used the period since January to discuss the other provisions that will be necessary in the agreement, such as non-tariff barriers, rules of origin, services and investment coverage, and safeguards.

Only after we have had sufficient time to review thoroughly the USITC advice on elimination of U.S. duties, will we initiate discussions on the product coverage of the agreement. As our discussions with Israel proceed on this and other aspects of the agreement in the coming months, our office looks forward to conferring with you on a regular basis.

Negotiating Authority

The Administration proposes that a U.S.-Israel Free Trade Arrangement be negotiated and implemented under an expanded

Section 102 authority of the Trade Act of 1974. Currently, the President has the authority under Section 102 to negotiate and enter into agreements modifying non-tariff barriers in international trade subject to Congressional approval and the advice from the U.S. International Trade Commission (USITC) and the private sector. The Administration seeks from this Subcommittee an expansion of that authority to allow the President, on a limited basis, to seek new opportunities for trade expansion by negotiating the reduction and elimination of foreign tariffs, as well as non-tariff barriers.

There are several important reasons for this approach. First, by tying increased negotiating authority to Section 102, the President will be able to pursue a prudent course of trade liberalization, while preserving the well-known and all-important safeguards set out in that provision of existing law. Notable among these safeguards is the required advice from the USITC, our private sector advisory committees and the Congress. Most importantly, no trade agreement could be entered into by the President until the full Congress has reviewed and approved the agreement.

Second, the United States Government has been approached by several governments that have expressed interest in various forms of "free trade" or trade liberalizing negotiations. Most notable among these is the proposal made by Canada in August

1983. In short, the Canadian Government released a comprehensive review of Canadian trade policy for the 1980's which included a proposal for limited sectoral free trade arrangements between the United States and Canada. In February of this year, Ambassador Brock met with Canadian Trade Minister Gerald Regan regarding this proposal. Both Governments agreed at that time to establish a number of joint working groups to see if the proposal was desirable and feasible. Specifically, the two governments agreed to examine the feasibility of negotiations involving steel, informatics, and farm equipment.

While the United States has made no commitment to enter into negotiations with Canada on these or any other sectors, we have informed the Canadians that we will continue to identify specific sectors of interest to us. We are presently in the process of soliciting advice and suggestions from the private sector on both the sectors, under active examination as well as possible additional sectors which we might propose for Canada's consideration. In this regard, let me say that there has been considerable interest expressed in our negotiating with Canada for trade liberalization on furniture, selected forest products, cosmetics, lawn mowers and snow blowers, alcoholic beverages, including beer and wine, home appliances, and high technology items. In fact, a majority of Members of the full Ways and Means Committee have written to USTR urging us to initiate tariff negotiations with Canada on several products, most notably furniture.

Without the granting of tariff negotiating authority, our discussions with Canada may soon be suspended since any foreign government would be reluctant to propose more formal offers in the absence of flexible negotiating tools. Further, the Trade Act of 1974 conveyed the sense of the Congress that the United States should enter into a trade agreement with Canada, and the President was authorized to initiate negotiations to establish a free trade area with Canada. This Congressional intent was emphasized again in the Trade Agreements of 1979 when Congress required the President to study the desirability of entering into North American trade agreements. The study, which included an examination of mutual market opportunities, was presented to the Ways and Means Committee in 1981.

Third, the implementation of any free trade arrangement with country such as Israel has important legal implications with respect to our obligations to third countries. The United States is party to numerous bilateral treaties of Friendship, Commerce, and Navigation (FCN) and other bilateral agreements containing Most Favored Nation (MFN) provisions. Because of these obligations we must give any other country with which we have an FCN Treaty the same benefits granted to Israel under a U.S.-Israel Free Trade Arrangement. It is obvious that the Congress and the private sector are concerned about the possible unilateral granting of free access to the United States market to several FCN Treaty countries as an automatic consequence of a negotiation with Israel.

We are sympathetic to these concerns. It was for this reason that the Administration worked with the Senate Finance Committee on a legislative solution under Section 102 that would: 1) allow the United States the sufficient negotiating flexibility so as to respond to our existing treaty obligations, and 2) provide safeguards for the Congress and the private sector such that benefits will not be automatically granted to any country beyond the scope of our negotiations.

Finally, let me emphasize the foreign policy and trade policy implications of Congress pursuing a country specific authority, as opposed to an overall negotiating mandate with build-in safeguards and checkpoints. At a time when are seeking both tariff and non-tariff reductions from countries throughout the world on numerous products, it could be counterproductive to approve legislation that states the United States Government is only interested in trade liberalizing negotiating with Israel. In addition to placing us in an awkward position internationally, country specific authority will send a very clear signal to Canada and others that the United States is not prepared in the near term to discuss or to press for tariff reductions. At a time when we have within reach opportunities to gain tariff reductions on a wide variety of products of interest to U.S. manufacturers and exporters, this could be a critical setback to positive bilateral discussions in the future.

USTR and the Administration are open to any suggestions the Subcommittee may wish to propose as a mutually acceptable solution to the question of negotiating authority. We have not and will not propose formal legislative language to grant broad tariff negotiating authority to the President, but instead prefer to work with the Members of this Subcommittee on language that will allay specific concerns, while at the same time provide the United States Government with a useful, internationally-acceptable authority. In this regard, I recommend to you for further study of the Senate bill which would expand the present Section 102 authority to include tariffs in negotiations with Israel and Canada at this time, and would leave open the possibility of such negotiations with other countries with the consent and advice of the Ways and Means Committee and the Finance Committee.

In addition, let me remind the Subcommittee that for the past two years, the Administration has sought an extension of the limited Presidential tariff negotiating authority under Section 124 which expired in January 1982. We would welcome the inclusion of Section 124-type authority in any discussion of tariff authority, should the Subcommittee choose to consider such a provision in the broader context of this exercise. While to some, such a consideration may appear to be far afield from the topic of the hearing this morning, I would point out that what we are concerned with is the negotiated reduction and elimination of foreign tariffs and non-tariff barriers, be they with Israel, Canada, or any other nation. The Office of the United States Trade Representative presently lacks any statutory tariff negotiating authority. It is the absence of such a tool that prevents us from negotiating and implementing a U.S.-Israel Free Trade Arrangement, as well as from pursuing tariff reductions on many products of interest to a majority of the Members of this Committee. In essence, we are precluded from negotiating advantageous market access for our most competitive producers.

Conclusion

Mr. Chairman, we are pleased to have had this opportunity to present our proposal for a U.S.-Israel Free Trade Arrangement to you, and our ideas on this type of authority needed to implement such an arrangement. Please be assured that USTR expects to work closely with all Members of this Subcommittee and of the full Committee each step of the way on this issue. We stand ready to meet with you and your constituents, to discuss the USITC findings and our negotiating posture, and to seek your advice and assistance. Further, we would welcome the opportunity to discuss specific ways in which Section 102 authority could be expanded to meet the concerns raised by both the Administration and the Congress.

In closing, let me say that the success of our negotiations with Israel, or with any country, lies in the degree to which we work with the Congress and the private sector. Under our proposal, the Congress will review any agreement in detail. It is therefore to the advantage of all concerned that whatever is negotiated is undertaken the concerns of this Subcommittee in mind. Only through such a process will we be assured that such a free trade arrangement will be greeted with the necessary Congressional support to make it a reality.

Chairman GIBBONS. Before we go to questions, let's hear from the Department of Agriculture, Hon. Alan Tracy, Deputy Under Secretary for International Affairs and Commodity Programs.

STATEMENT OF HON. ALAN TRACY, DEPUTY UNDER SECRETARY FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, U.S. DEPARTMENT OF AGRICULTURE

Mr. TRACY. Thank you, Mr. Chairman.

I have a short statement which I would submit for the record and summarize briefly, if you wish.

We, of course, concur with Ambassador Lighthizer's statement that the United States has reviewed the economic and political merits of the proposals and determined the United States could gain substantially from it.

In agriculture, our exports to Israel were valued in calendar year 1983 at about $300 million, which was about six times the value of our imports in agriculture from Israel. The exports were mostly grains and soybeans; imports were mainly horticultural products, especially processed tomato products.

With regard to the trade impact on U.S. agriculture, it would seem that the most significant growth area would be in processed products, especially if current licensing restrictions on such products are removed.

On the import side, the strongest Israeli export potential is in the horticultural area. Aside from processed tomato products, we have imports from Israel of some other products, such as fresh and processed citrus, olives, and cut flowers that could increase in the absence of customs tariffs.

It is important to note, though, that increased pressure on the use of land and water resources in Israel will act as a constraint on agricultural production expansion in that their agricultural production area has been declining recently.

The administration recognizes that some products are more sensitive to trade liberalization than others and formation of the free trade area must take this into account.

In the free produce market, for instance, when large supplies are available in a given market at a given time, the demand curve becomes very inelastic and very small additional amounts can become price depressing. With this in mind, the President has asked the ITC to examine these products and advise us of the effect on U.S. producers and consumers of duty-free treatment for imports from Israel.

When this information is available, we will be in a better position to decide on product coverage and specific tariff treatment for individual products.

We are concerned about the impact, the possibility of a need for special relief provisions for perishable products, and are looking at the possibility of a fast-track provision such as the one in the Caribbean Basin Initiative. Any decision on this awaits our receipt of the U.S. International Trade Commission advice.

We are also concerned about ensuring that we have effective rules of origin. We do have such rules already in place for GSP and for the CBI statute. The GSP rules have been in place for some time and have apparently worked fairly well.

Finally, with regard to the concern about Israeli export subsidies, we believe a free trade area should be based on the principle of comparative advantage and not on the ability of a country to subsidize exports.

The benefits of duty elimination should not accrue to subsidized exports. This will be carefully considered in the terms of the final agreement.

Thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF ALAN T. TRACY, DEPUTY UNDER SECRETARY, INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, U.S. DEPARTMENT OF AGRICULTURE

Mr. Chairman, members of the subcommittee, I appreciate the opportunity to discuss agricultural aspects of the proposed two-way free trade area with Israel.

The United States has reviewed the economic and political merits of the proposal and has determined that the U.S. could gain substantially from it. Most of the benefit will accrue to industrial products where dutiable products constitute a higher percentage of the total.

In calendar year 1983, U.S. agricultural exports to Israel were valued at nearly $300 million, about six times the value of U.S. agricultural imports from that country. The exports consist mostly of grains and soybeans, while imports are comprised mainly of horticultural products, particularly processed tomato products.

Both the United States and Israel intend to have the free trade agreement cover as many products as possible in accordance with the GATT stipulation of a free-trade-area. However, negotiations of specific product coverage must await advice by the U.S. International Trade Commission, which is due to be released soon. Both the Trade Commission and the interagency Trade Policy Staff Committee, chaired by the U.S. Trade Representative, held public hearings on this subject in April.

With regard to its trade impact on U.S. agriculture, it appears that the free trade area would provide a significant growth potential for U.S. exports of value-added products, such as processed grain products, if present licensing restrictions on such products are removed. In the case of tobacco and tobacco products, the U.S. position in the Israeli market would further strengthen upon the removal of import duties.

On the import side under the FTA, the strongest Israeli export potential is in the horticultural area. Besides the processed tomato products that I mentioned, Israeli exports to the U.S. of some other products, such as fresh and processed citrus, olives, avocados and cut flowers could increase in the absence of customs tariffs.

However, it is important to note that increasing pressure on use of land and water resources in Israel will act as a constraint on expansion of agricultural production.

The Administration recognizes that some products are more sensitive to trade liberalization than others and that the formation of the FTA must take this into account. In the fresh produce market, for instance, when large supplies are available, the demand curve becomes very inelastic and small additional amounts can be very price depressing.

With this in mind, the President has directed the U.S. International Trade Commission to examine each U.S. tariff item and provide advice on the probable economic effect on U.S. producers and consumers of duty-free treatment for imports from Israel. When this information is available, we will be in a position to decide on product coverage and specific tariff treatment for individual products.

Also, after receipt of the USITC advice, the Administration will be in a better position to assess the need for a special relief provision for perishable products. A mechanism such as the "fast track" provision included in the Caribbean Basin Initiative statute, I believe, would provide domestic horticultural growers with timely legal redress from a possible surge of perishable product imports from Israel under the FTA. If a need is indicated in the USITC advice, we will work to develop a suitable provision in the FTA agreement.

In addition, effective rules-of-origin, similar to those included in the GSP legislation and the CBI statute, would be utilized in the FTA to prevent transshipments of non-Israeli products to the U.S. market.

Finally, with regard to the often raised concern over Israeli export subsidies, we believe that a free trade area should be based on the principle of comparative advantage rather than on the ability of a country to subsidize its exports. The benefits of duty elimination should not accrue to subsidized exports. This will be carefully considered in the terms of the final agreement.

That concludes my statement, Mr. Chairman. I will be glad to respond to questions.

Chairman Gibbons. I would say to both of you that I don't expect you to negotiate anything that would tear down our laws that I generally describe as keeping the playing field level, the laws against subsidies, the laws against dumping essentially. Nor do I want you to do anything that gives any country a distinct advantage in what are the basic areas.

This is a reduction of tariffs and any nontariff barriers that we have, but I don't include the counterveiling duty laws and dumping laws as being nontariff barrier laws. Those are basic laws designed to keep the trade free and open.

Subsidized trade, as I have said so often, is not free trade. It is the worst kind of Government intervention in the marketplace.

So I don't want to see you all attempting to negotiate any of those away.

Of course, what I hope you will have and I know you will have is a reciprocal reduction in barriers aiming toward a zero balance of artificial barriers to our trade.

You mentioned, Mr. Tracy, a study by the International Trade Commission on some agricultural products. When will that be available?

Mr. Tracy. I don't know. They did hold hearings in April and also the trade policy staff committee has held hearings on this subject, but——

Chairman Gibbons. Tell them not to drag their feet.

Mr. Lighthizer. The end of this month, Mr. Chairman.

Chairman Gibbons. That may be soon enough.

Mr. Lighthizer, you mentioned the most-favored-nation treaties we have with other countries. I don't see that as a barrier to this negotiation.

This is a legislative act that supersedes those treaties, and as I have said here in the beginning, if any other nations want to negotiate like this, all they have to do is let Congress know or let you know and you will let the Congress know that they are ready to negotiate.

So I don't want us to get hung up on most favored nation. We have enough hangups on that around the world already.

Most favored nation now almost means least favored action. I don't want most favored nation to become a barrier to progress.

Do you have the manpower, both of your agencies, to begin the negotiations rapidly on this?

Mr. LIGHTHIZER. Yes, Mr. Chairman, we do.

Chairman GIBBONS. And the expertise?

Mr. LIGHTHIZER. Yes, Mr. Chairman, we do.

Chairman GIBBONS. Let's negotiate then.

Mr. Downey.

Mr. DOWNEY. Mr. Chairman, thank you.

Ambassador Lighthizer, did the administration oppose what the Senate Finance Committee did on the free trade zone for Israel and one for Canada?

Mr. LIGHTHIZER. No, Mr. Downey, we supported that.

Mr. DOWNEY. May I just ask, does the administration oppose this legislation? It doesn't say so here.

Mr. LIGHTHIZER. We much prefer and support the Senate legislation for a number of reasons.

Chairman GIBBONS. Why don't you tell me what they are.

Mr. LIGHTHIZER. The primary reason is that we would prefer to have broader authority than just authority for Israel.

As I indicated, we have had expressions of interest from Canada, and indeed I might say on that note that during the last two major trade bills that the Congress has passed, there have been requests that we either study or begin negotiations of such arrangements with Canada.

There is a great deal of congressional interest and has been for some time.

We also think that the Senate formulation, if I could briefly summarize it, accomplishes the same objectives you want to accomplish but does it in a way that is far better for us. That is, it says that we can negotiate these kinds of agreements with any country, but before we can begin negotiations we have to submit the fact that they even want to start negotiating to this committee and to the Senate Finance Committee and if either committee objects, we can't negotiate with them and use the fast track.

This means that the door, as the chairman indicated, really is open for every country but at the same time we are not automatically giving anything to any other country and we are allowing this committee and the Senate Finance Committee, each independently, to determine if we should negotiate and use the fast track.

There is a broader application here and yet I think it is allowing us to accomplish the objectives that you desire and that we desire, that is, to see a free trade arrangement with Israel.

Mr. DOWNEY. Can I ask you, in that last description, where you would come back to the committees for further approval of negotiating authority—how does that wash with the Supreme Court decision?

Do you think that might have some problem, be construed as a congressional veto of an executive action?

Mr. LIGHTHIZER. We really don't think so, Mr. Downey. We think that coming back to this committee, coming back to the Senate Finance Committee, and asking for permission to start negotiating—

which just triggers our ability to use the fast track—is not inconsistent with the Supreme Court decision.

Indeed, it provides a valuable safeguard.

Mr. Downey. In all fairness, Mr. Ambassador, isn't this a lot faster track?

It says, go ahead and do it rather than waiting to come back and forth to determine whether or not they are or are not bargaining in good faith. There is no substantive disagreement with what we are trying to do here; it is a matter of process that you are concerned about.

Is that a correct characterization of the administration's objections to the bill?

Mr. Lighthizer. It is more than a question of process. Your bill is limited just to Israel. We really would like to negotiate or see if it is in the interests of the United States to conclude an agreement with Canada in addition.

We would also substantively like to have the option open of being able to explore such agreements with other people if this committee and the Senate Finance Committee think it is in our economic interest to do so.

So I think there probably are some substantive differences.

Mr. Downey. Thank you, Mr. Chairman.

Chairman Gibbons. Mr. Frenzel.

Mr. Frenzel. Mr. Chairman, Mr. Schulze has to leave and I wonder if I could yield to him.

Chairman Gibbons. Sure. Go ahead.

Mr. Schulze. I thank the gentleman for yielding.

Gentlemen, can you bring me up to date on Israel's similar agreement with the EC and how that is working out, and whether there are any problems?

Mr. Lighthizer. It is hard for us to say where there are problems. The Israelis and the European Community entered into an agreement in 1975. It provided for phasing in over a period of about 4 years on the side of the Community and over a period of 10 years with a couple of possible extensions on the side of Israel. If all extensions are used, it will be completely phased in for Israel in 1989.

Mr. Schulze. I understand some extensions were requested but I don't know why. Can you give me details on that? Why and in what areas?

Mr. Lighthizer. It is my understanding that there was a request for extensions because of Israel's economic situation. It wanted to use the latitude provided in the agreement to extend the amount of time that it had to grant duty-free access.

I might add, also, this is a more limited agreement than what we propose here and our position is that the Israeli-EC agreement is not consistent with the provisions of the GATT, whereas the kind of agreement we are talking about clearly is.

Chairman Gibbons. Is or is not?

Mr. Lighthizer. We think ours is.

Chairman Gibbons. I agree. I think it is, too. I looked at the GATT. This is the kind of thing the GATT was set up to promote.

Mr. Lighthizer. I agree with that, Mr. Chairman.

Mr. **Schulze**. How does the administration feel about exemptions, for instance, on cut flowers or tomatoes or jewelry or some other problems which have the potential for creating great problems?

Mr. **Lighthizer**. We are against the granting statutorily of any exceptions from the agreement. Right now, the Israelis can bring into the United States 90 percent of their trade duty free. If we start eliminating that last 10 percent, the benefits for Israel dry up very quickly.

We would prefer to review what the ITC has to say and consult with your constituents and other Members and try to deal with the problems through staging-in and in other ways to alleviate any particular problems.

Mr. **Schulze**. They are gaining 10 percent; is that correct? You say 90 percent are coming in duty free?

Mr. **Lighthizer**. They are gaining 10 percent; that is correct.

Mr. **Schulze**. Why is it to their advantage to even consider this? What is the difference?

Mr. **Lighthizer**. There really are two advantages. One is that it is important for them to have duty-free access for that 10 percent; the other is that they will have the advantage then of binding the GSP portion that comes in duty free, which is not bound now since GSP is an annual unilateral grant by the United States.

Mr. **Schulze**. Does Israel provide any subsidies now to its industries which would violate our trade laws?

Mr. **Lighthizer**. Yes; they clearly do have some subsidies.

Mr. **Schulze**. Will they be eliminated before the agreement is negotiated or will they be carved out as exemptions? Or how would that work?

Mr. **Lighthizer**. We are in the process of talking to them about that, because we have not really started any specific negotiations, at least product-specific negotiations. That is a matter of concern to us.

In any event, I would say, as the chairman said, that the purpose of this agreement would not be to usurp the role of our unfair trade laws in any event. They would still be subject to our countervailing duty laws in that case.

Mr. **Schulze**. But we shouldn't go into an agreement which we know will violate any of those laws; isn't that correct?

We should try, in whatever country we deal with, to eliminate those before we enter such an agreement.

Mr. **Lighthizer**. That is something we are talking to them about. But there is nothing in this agreement that will in any way violate our unfair trade laws.

Mr. **Schulze**. In what way will a free trade area improve our tremendous problem, balance of payments problem?

Mr. **Lighthizer**. We believe that a free trade arrangement with Israel—indeed one carefully crafted with Canada, too—will have the effect of opening up substantial markets for our exports. About 45 percent of our exports to Israel, for example, are subject to an average duty of about 10 percent; and the elimination of that duty will have the effect of making American producers more competitive.

In addition, it is important that we have this agreement because the already referred to Israeli-EC agreement is being phased in; therefore, over a period of time, the Community's products, many of which compete with ours, are becoming more competitive than ours, because they have a lower duty. So it is important. We clearly believe it is in our economic interests to enter into such an agreement.

Under the proposal administration favors—you would have an opportunity to look back on that when we submit the legislation.

Mr. SCHULZE. Do you have any problems with a dollar limitation on the imbalance so that we could make sure that it doesn't get too far out of line?

Mr. LIGHTHIZER. In the first place, we have a surplus with Israel. But we believe that the limitations on their economy are such that it is very unlikely that they are going to be able to come in here and take advantage of our markets in the way that some other larger country might be able to do so.

Mr. SCHULZE. I thank you, gentlemen.

I thank the gentleman from Minnesota for yielding, but time is running out and I have many more questions.

Chairman GIBBONS. If you have good questions, we have lots of time. We will be happy to hear them.

Mr. Pease.

Mr. PEASE. Thank you very much, Mr. Chairman.

Mr. Lighthizer, you mentioned in your testimony that the size of the Israeli market is $8 billion.

Do you have a comparable figure for the size of the U.S. market?

Mr. LIGHTHIZER. The $8 billion figure was the amount of imports they have right now.

Our comparable figure would be $270 billion.

Mr. PEASE. $270 billion, OK.

Would the establishment of a free trade zone be likely to open up for export the Israelis' new product lines that are not now competitive in the U.S. market?

Mr. LIGHTHIZER. We believe that that is clearly a possibility, Mr. Pease.

Mr. PEASE. So when we say that 90 percent of their products now come in duty free, and 10 percent come in at duty, the free trade zone would essentially expand the universe of products that the Israelis could send in; is that correct?

Mr. LIGHTHIZER. Yes.

I don't want to be coy, but they could send in more than they are sending in now, of course, and they don't send it for a variety of competitive reasons.

Mr. PEASE. Well, you mentioned in your testimony that Israel proposed the establishment of a free trade zone in 1981 and again in 1983. It appears from your testimony that we have more to gain than the Israelis do from this arrangement.

I have never known the Israelis to act against their own national interest. Why is it that they are eager to do this? Will there be a commercial advantage from their point of view greater than our advantage?

Mr. LIGHTHIZER. I don't believe that there is a greater competitive advantage for them in our market than for us in their market, but this is a tradeoff and these are economic judgments that one has to make. They are getting access for a small number of products in a bigger market. We are getting access for more products in a smaller market, and we are going to have a greater reduction in the duty.

It is hard really to make an assessment of who benefits more than the other. I suspect that in this kind of an arrangement we can both benefit in that the losers tend to be the third countries. In other words, they won't displace American workers; in many cases, they will displace imports from other sources. The same is true of us; we will displace, for example, imports in their market from the European Community.

So I don't think that you can make the assumption that one does better than the other. It is in both of our economic interests. And the fact is, it will probably be third parties that will have less as a result of this arrangement.

Mr. **Pease**. Well, free trade is a good unto itself, whether or not anybody gains or loses. I think that is the prevailing philosophy.

But have you talked with the Israelis or have you tried to analyze yourself why it is that they are so eager to have a free trade zone? They must figure there is some advantage to them to do so.

Mr. **Lighthizer**. Without a doubt, they think it is in their selfish economic interests, just as we think it is in our selfish economic interests to do the same. They want to bind the GSP duties at zero. They want an increase of access in our market. They want to have the stability of knowing that regardless of the changing GSP program, that they will be able to bring in certain products and plan and develop customers. Very definitely it is in their economic interest.

Mr. **Pease**. Is my impression correct that Israel has substantial balance-of-payments problems?

Mr. **Lighthizer**. Yes.

Mr. **Pease**. Presumably, they would not want to do anything to exacerbate those balance-of-payments problems.

Does that mean there is a judgment on their part that in terms of the export-import relationship between the United States and Israel, that they are likely to gain more from this arrangement than we are?

Mr. **Lighthizer**. In the first place, this whole balance-of-payments problem is something that has to be negotiated in the agreement, and traditionally has been addressed in these arrangements. There will be something to deal with the balance-of-payments problem.

But I don't think it is fair to say that everything that one side wins, the other side loses. I don't think it is a zero-sum game.

The fact is, it can be a big benefit for Israel and for us, at the same time. In fact, other suppliers will tend to be the losers—not the United States, not Israel.

I don't think they are entering into this arrangement because they think it is to our disadvantage. I think they are committed, like we are, to the fact that it is really in both of our interests. If it isn't—if the final package is not in our interests—I trust that the Ways and Means Committee, and particularly the Trade Subcommittee, will stop it.

Mr. **Pease**. Well, the very best arrangements of all are those that benefit both parties. Right now, we have a slight benefit in our trading relationship with Israel of $300 million in our favor, roughly.

What would you say if such a free trade arrangement were negotiated? What would you guess the situation would be 5 years after the completion of that negotiation, or 10 years after? Will we still have an advantage, or not?

Mr. **Lighthizer**. I do not know, Mr. Pease, in all honesty. Our sense is that we probably would still have an advantage, but we really haven't calculated those figures.

From our point of view—this is really a pretty good example of it—you have to look at multilateral trade balances rather than bilateral balances. If what we believe is true—that is, that we will be supplanting other suppliers to Israel, and they will be supplanting other suppliers to us—you would have to see what effect that would have on dealings with our countries before you could tell whether or not it had—in other words, it might just hypothetically—it may help us in the balance with the European Community, or ASEAN countries, or anyone else.

We want to subject this to the judgment of the committee when it is completed. But we believe the net of this is a gain for the United States—more markets for our products. That is the only reason we enter these negotiations.

Mr. **Pease**. Will you submit to the subcommittee your calculations which show how it will benefit the United States?

Mr. **Lighthizer**. We will do an analysis of that, yes, Mr. Pease.

[The information follows:]

The analysis requested by Congressman Pease has been undertaken by the CIA at the request of this office. We anticipate that the report will be completed within one month of the time of printing. At that time, the report will be transmitted to the Subcommittee for inclusion in the file for the hearing on the U.S.-Israel Free Trade Arrangement.

Mr. **Pease**. This proposal is to give you authority to negotiate a free trade agreement.

What happens after you have negotiated it? Is there any congressional approval required?

Mr. **Lighthizer**. There are two different proposals. One is the proposal introduced by Mr. Downey, which is the subject of this hearing, and it is my understanding under that bill the authority, it is self-implementing.

The Senate took a slightly different tact, and one the administration prefers, although it gets to Mr. Downey's objective, that is to say a free trade arrangement with Israel. Under the Senate provision, we use what is called section 102 fast-track procedures. In that case, what happens is we complete the arrangement; we come back to the committee and to the Senate Finance Committee, and as we have in the past—this is the procedure we have used many times, including the big trade bill of 1979—we would come in with what would be a private markup and sit down and go through the arrangement with the members of this committee and with the members of the Senate Finance Committee.

When that process is completed—assuming also that we have gone through other steps, which is to say the ITC and private sector review—we would then go back and submit a bill to the committee, which then could not be amended; it would have to be passed on a short timeframe up or down. That is the procedure in the Senate.

In Mr. Downey's bill, as I understand, we would go out and negotiate a self-implementing arrangement.

Mr. **PEASE**. Mr. Downey would like me to yield.

Mr. **DOWNEY**. Thank you, Mr. Pease.

Ambassador Lighthizer, would you have your counsel do a memorandum of law on the difference between your approach and why you think legally it is not in conflict with *Chadha?*

Mr. **LIGHTHIZER**. Yes, sir.

[The information follows:]

OFFICE OF THE U.S. TRADE REPRESENTATIVE,
EXECUTIVE OFFICE OF THE PRESIDENT,
Washington, DC, June 25, 1984.

Memorandum to: Subcommittee on Trade, Committee on Ways and Means, House of Representatives.
From: Claud Gingrich, General Counsel.
Subject: The *Chadha* Decision and the Proposed Expansion of Section 102 of the Trade Act of 1974.

ISSUE

This memorandum has been prepared in response to a request from Rep. Thomas Downey for a legal opinion from the General Counsel's Office of the Office of the United States Trade Representative on whether a proposed bill of the Senate's Committee on Finance amending Section 102 of the Trade Act of 1974, 19 U.S.C. 2112, would be consistent with the decision of the U.S. Supreme Court in *I.N.S.* v. *Chadha,* 103 S. Ct. 2764 (1983).

CONCLUSION

It is our opinion that the proposed Senate bill expanding Section 102 of the Trade Act of 1974 is not inconsistent with the *Chadha* decision and poses no Constitutional problems.

INTRODUCTION

On May 9, 1984 the Senate Finance Committee approved, in concept, legislation which would provide for, among other things, the expansion of the President's current authority under Section 102 of the Trade Act of 1974. This expanded authority was proposed, and is supported by the Administration, for the purpose of allowing the President to enter into negotiations with Israel and Canada providing for the reduction or elimination of duties as well as nontariff barriers and to seek approval of implementation legislation on all aspects of the proposed agreements through the use of the "fast track" procedures of the Senate and House rules set out in Section 151 of the Trade Act of 1974.

At the present time the President has the authority under Section 102 to seek expedited implementation of any trade agreement he enters into to modify or eliminate nontariff barriers in international trade, through the use of the Section 151 "fast track" procedure. On tariff items the President currently has his inherent authority to negotiate a trade agreement and then seek Congressional implementation authority through normal legislative procedures. The proposed expansion of the Section 102 authority would enable the President to use the expedited Congressional approval procedures of Section 151 for tariff items as well as for nontariff barriers. It is intended that by granting the President the ability to use the "fact track" procedures for both types of trade barriers, he will have the flexibility to negotiate a comprehensive trade agreement with Israel and Canada, covering a wide range of products and impediments to trade, and thus secure for the United States the most beneficial arrangement possible.

In addition to enabling the President to receive "fast track" consideration for trade agreements he enters into with Israel and Canada, the Senate bill also provides that agreements with other nations may, under certain circumstances, be similarly submitted to Congress for expedited review. A potential Constitutional question relating to the recent Supreme Court decision, *I.N.S.* v. *Chadha,* 103 S. Ct. 2764 (1983), arises in this context.

PROCEDURAL LIMITATION ON USE OF "FAST TRACK"

The Senate proposed legislation is primarily aimed at enabling the President to negotiate and enter into trade agreements with Israel, to establish a Free Trade Area, and with Canada, to enter to sectoral free trade arrangements, similar to the U.S.-Canada automotive pact. However, the Senate bill will be drafted to enable the President to extend his negotiations to other nations (and receive the expedited approval of Section 151 for the appropriate implementation legislation), if certain procedures are followed. The purpose of this is to give the President the flexibility to seek new opportunities for trade liberalization in the future, if the experience with Israel and Canada warrant it, and to establish a mechanism to enable the United States to consider the extension of concessions made to Israel and Canada to those nations with whom the U.S. has treaties of Friendship, Commerce and Navigation, providing for unconditional Most-Favored-Nation rights.

The procedure envisaged in the Senate bill would work as follows: the President would be able to enter into trade negotiations relating to the elimination or reduction of a duty with any country if (1) such country requests the negotiation and (2) the President consults with the Committee on Finance of the Senate and Committee on Ways and Means of the House of Representatives 60 days prior to the date notice of his intention to enter such trade agreement is published in the Federal Register as required by subsection (e)(1) of Section 102.

The Senate and House rules of Section 151 providing for expedited consideration of implementation legislation would not apply to agreements entered into with countries other than Israel and Canada and providing for the elimination or reduction of duties, unless the requirements described in the preceding paragraph are met and, within the 60 days period, the Committee on Finance of the Senate or the Committee on Ways and Means of the House of Representatives *does not disapprove* of the negotiation of the agreement.

In effect, unless the President follows the procedures laid out in the legislation, he is prohibited from submitting any trade agreement he negotiates with any country other than Israel and Canada for expedited consideration by the Congress using Section 151 "fast track" procedures. The question that arises for consideration here is whether the procedural requirement that if either the Finance or Ways and Means Committee disapprove the negotiation the President is barred from "fast track" procedure constitutes a "legislative veto" which may not be employed in light of *I.N.S.* v. *Chadha,* 103 S. Ct. 2764 (1983).

THE CONSTITUTIONAL ISSUE

The Supreme Court's decision in *I.N.S.* v. *Chadha,* handed down on June 23, 1983, related to an appeal under the Immigration and Nationality Act which provided for a one House legislative veto of an administrative decision by the Attorney-General suspending deportation of a native of Kenya from the United States. The Court, in a 7-2 decision, ruled on the constitutionality of the legislative veto itself, a legal mechanism which had been employed since the Hoover Administration in an effort by the Congress to maintain its oversight over delegated functions and was now incorporated in some 200 federal statutes.

The effect of the Court's holding in *Chadha* is sweeping, ruling on all applications of the legislative veto. The decision requires a consideration of whether any Congressional action is legislative in character or is "in conformity with the expressed procedures of the Constitution's prescription for legislative action: passage by a majority of both Houses and presentment to the President.[1] "

In determining whether the *Chadha* decision would proscribe the proposed committee disapproval procedures which will be contained in the Senate bill, it is necessary to determine what the Court would classify as a "legislative act." In attempting to define this concept the Court states: "Whether actions taken by either House are, in law and fact, an exercise of legislative power depends not on their form but upon whether they contain matter which is properly to be regarded as legislative in its character and effect . . ." 103 S. Ct. 2764, 2784.

In the case of *Chadha,* which involved a one House veto of the Attorney-General's determination that Chadha might remain in the United States, the Court concluded that the House had taken action which had "the purpose and effect of altering the legal rights, duties and relations of persons . . . . all outside the legislative branch." 102 S. Ct. 2764, 2784. The Court went on to observe that "absent House action, Chadha would remain in the United States. Congress has *acted* and its action has altered Chadha's status." Id, 2785.

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[1] *I.N.S.* v. *Chadha* 103 S. Ct. 2764 (1983), 2787.

Applying this determination to the proposed Senate bill leads to a conclusion that no legislative act, as described in *Chadha*, would be present in an exercise of the two Committee disapproval procedure which is contemplated. Key to Chief Justice Burger's definition of a legislative act is that the one House veto in the *Chadha* case had the purpose and effect of altering the legal rights, duties and relations of persons outside the legislative branch. In the proposed legislation, the disapproval of either House would have none of these effects.

The matter at issue here is whether or not the President may, when seeking implementation authority for a bilateral agreement (other than with Israel and Canada), have access to the expedited approval procedures of the Senate and House rules set out in Section 151 of the Trade Act of 1974.

As provided for by current legislation, the President does not have unlimited access to these procedures in any event. By statute, he can only seek expedited consideration of trade agreements which provide for the modification or elimination of nontariff barriers. Even for agreements affecting nontariff barriers he can only receive expedited Congressional review if he follows specific procedural requirements.[2] The Senate bill merely adds additional procedural requirements for the President to meet in order to have access to the "fast track" procedure, including having a special consultation period with the Finance and Ways and Means Committees for agreements which include the modification or elimination of duties, and an opportunity for either committee to object to the treatment of a particulary agreement in this expedited manner.

Chadha restricts the alteration of legal rights, duties and relations of persons outside the legislative branch by the action of the Congress without observing the bicameral and presentment requirements of Article I. In this case an indication of disapproval by either Committee would not have this effect. The active disapproval of the Committees in this context would not be a legislative act as it would not affect the legal status of the bill which the President would be submitting to Congress. All it would mean is that bill could not receive "fast track" consideration. The President would still be free to submit the legislation for Congressional review. No more would be altered by the Committee's disapproval than if the President elsewhere failed in meeting the procedural requirements set out in the extant statute.[3]

Despite this proposal's appearance of embodying a legislative veto by a single Committee, it not proscribed by the meaning of the Supreme Court's decision in *Chadha*. In that case the Court objected to a legislative act of Congress, taken without reference to the strictures of Article I of the Constitution which affected the rights and duties of individuals outside the legislative branch. In the Senate proposal, the possible disapproval of either of the two Committees is not a legislative act, as it merely determines whether particular legislation will have access to special Senate and House rules for expedited consideration, or will be considered in the normal legislative process.

Mr. **Pease**. Under your fast-track proposal then, which is in the Senate bill—is that correct?

Mr. **Lighthizer**. Yes, sir.

Mr. **Pease** [continuing]. Congress would have to enact a law approving the arrangement that you negotiated; is that correct?

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[2] These procedures, set out in Section 102, 131-135 of the Trade Act of 1974, require that, in order to use the "fast track" procedures, the President must:

Consult with both the Senate Committee on Finance and the House Committee on Ways and Means, and with each committee of the House and the Senate and each joint committee of the Congress which has jurisdiction over legislation which would be affected by such trade agreement. (102 (c))

Notify both Houses of Congress ninety days before entering agreement and promptly thereafter publish notice in the Federal Register intention to enter agreement. 102 (e)(1)

Publish in the Federal Register and supply to ITC lists of all articles whose duties might be modified (131 (a))

Seek information and advice from various agencies (132)

Arrange for public hearings (133 (a)) and receive hearing summary (133 (b))

Seek guidance from private sector advisors (135)

[3] Described in previous note.

Mr. LIGHTHIZER. Yes, sir. It would be under a short timeframe and without amendment, but that is correct.

Mr. PEASE. It would have to come to a vote within 90 days?

Mr. LIGHTHIZER. That is correct.

Mr. PEASE. OK, fine.

USTR has sought for a long time to get renewal of section 124 negotiating authority, and Congress has not seen fit to approve that.

How does what you are doing here in relation to Israel, but also with relation to other nations, compare with section 124? Are you trying to get 124 authority through the backdoor here?

Mr. LIGHTHIZER. No; I don't think that is a fair characterization, Mr. Pease.

We actually have, and continue to support, the extension of section 124 authority. We would like to have the authority—and hopefully this committee will consider that at the appropriate time—to respond to requests of the members of the committee, and Members of the House and Senate, who want us to negotiate minor tariff reductions on behalf of their constituents. We get dozens of letters like that every week, and typically—I am sure you have gotten these—we say we will try to help but we don't have the authority to negotiate those self-executing deals. These are different authorities.

We are still very interested in having 124 authority, and we think it is in our interest as well as the Congress.

Mr. PEASE. Thank you very much.

Chairman GIBBONS. Mr. Frenzel.

Mr. FRENZEL. Thank you, Mr. Chairman.

Thank you, Ambassador Lighthizer and Secretary Tracy. We appreciate your testimony.

I want to get into the 102 authority and get back to the question Mr. Pease raised of what is in it for both sides. I am not sure he asked the right question. I think there is more in it for Israel than was elicited as a result of his query.

For one thing, under your GSP bill, should it be passed, Israel would graduate some of its products; is that not true?

Mr. LIGHTHIZER. If our bill passed, some of their products would be graduated and Israel would be in a position to try to seek a new level of benefits.

Mr. FRENZEL. Is it also true they have asked for GSP on certain agricultural products? And here I really make a point for Mr. Thomas, who is not here. Incidentally, it is not my point.

My point is, I happen to be very strongly in favor of the bill, and even more strongly in favor of the Senate version. But Mr. Thomas tells me that there are products for which Israel has asked GSP treatment and we have turned them down, which under this bill of course would be incorporated at zero duty.

Mr. Tracy can probably talk to that point since the products are agricultural.

Mr. TRACY. I understand that that is correct. They have asked for——

Mr. FRENZEL. It applies to black olives and some other——

Mr. TRACY. Citrus categories.

Mr. LIGHTHIZER. Olives and tomatoes, I am told.

Mr. FRENZEL. What Israel gets is a fail-safe position should GSP falter. They get 10 percent more than they get from GSP. They get an additional market that it cannot now approach. It gets stuff that might be graduated and stuff that is not now accepted for GSP, which I think is a nice package for Israel.

As I understand from your discussion, what the United States gets is the 40 percent of our exports or more that are now subject to duty in Israel, and a relatively unrestricted or almost unrestricted shot at the total Israeli import market, which is particularly important to us because we are now in a competitive disadvantage against the European Community because of the European Community's existing agreement with Israel.

Is that correct?

Mr. LIGHTHIZER. That is precisely correct.

Mr. FRENZEL. Our shot is mostly at manufactured goods?

Mr. LIGHTHIZER. Largely manufactured goods.

Mr. FRENZEL. I think I am seeing what the problems are and what the benefits may be, and my judgment is that the benefits to the United States are important, and the benefits to Israel are important.

I agree with our chairman and with you, Mr. Ambassador—that is not a zero sum game. Every time there is a transaction in the marketplace, somebody buys and somebody sells, it is at least theoretically in a relatively free market a transaction that helps both sides, and that sometimes we will be plus and sometimes we will be minus in our trade balances. But, in general, the trade is going to be helpful to both countries.

I take it that is the basis under which you are negotiating?

Mr. LIGHTHIZER. Yes, sir.

Mr. FRENZEL. Well, if that is roughly the advantage to both sides, which I think is important and ought to be sustained, can you tell me what sectors you heard complaints from in your hearings of April 12 and 13 in the interagency group, besides agriculture?

Mr. Tracy, while he is looking that up, maybe you can tell me, are the complaints from agriculture mostly specialty crops?

Mr. TRACY. Yes; aside from the ones I specifically mentioned in the testimony, we have also had concerns from growers of pimentos, artichokes, producers of dried garlic, dried onions, peppers——

Mr. FRENZEL. Raisins?

Mr. TRACY. No.

Mr. FRENZEL. Almonds?

Mr. TRACY. I don't think almonds, either.

Mr. FRENZEL. Tomatoes primarily?

Mr. TRACY. Tomatoes, I mentioned twice in the testimony, yes.

Mr. FRENZEL. Are tomatoes that are a cause for concern processed tomato products? That is not fresh product?

Mr. TRACY. Yes; it is canned tomatoes, tomato paste, and tomato sauce.

Mr. FRENZEL. Mr. Schulze mentioned cut flowers.

Mr. TRACY. Yes.

Mr. FRENZEL. Those are fresh-cut flowers we are talking about?

Mr. TRACY. Yes; I think I mentioned cut flowers and olives and avocados.

Mr. **Frenzel**. Those are subject to GSP—is that correct?—right now, the flowers anyway?

Mr. **Tracy**. Other than roses, yes.

Mr. **Frenzel**. Thank you.

Mr. Lighthizer, did you have some other sectors?

Mr. **Lighthizer**. The only ones I would add, Mr. Frenzel, that we heard from nonagricultural sectors, were gold jewelry, bromine products——

Mr. **Frenzel**. I missed the second one.

Mr. **Lighthizer**. Bromine products.

Mr. **Frenzel**. Spell it for me.

Mr. **Lighthizer**. B-r-o-m-i-n-e.

Mr. **Frenzel**. What kind of products are bromine?

Mr. **Lighthizer**. It is a chemical that is produced in the United States largely in the Arkansas area here, as I understand it, and there has been some expression of interest.

Mr. **Frenzel**. Thank you very much.

Mr. **Downey**. Will the gentleman yield?

Mr. **Frenzel**. I yield to the distinguished gentleman from New York.

Mr. **Downey**. To be clear on the bromine, if the other products came in duty free, there would be a need for more bromine. [Laughter.]

Mr. **Frenzel**. I thank the gentleman for the dubious contribution to the high level discussion we have going here.

May we discuss the 102 authority? What is the difference in the House bill from the Senate bill? As I understand it, there are several distinctions of which the main one is that the Senate bill provides that we arm you with the authority to go negotiate with Israel and you will negotiate the best way you can, presumably, perhaps with some phase-ins of sensitive items—although, I prefer not to con you as to which ones you had to do.

You would then come back and discuss with us making a fast-track bill, and it would be passed—have to be passed—by the Congress under existing procedures. It is a two-step process then.

Mr. **Lighthizer**. That is correct.

Mr. **Frenzel**. It seems to me it protects the Congress and probably protects the United States and Israel, too, because it then calls for a double kind of ratification, and we have a little better idea of exactly what the deal is, and so do they, rather than just sending you out to negotiate something.

Also, the Senate language empowers you to do this elsewhere if you can get away with it; is that correct?

Mr. **Lighthizer**. It empowers us to do this elsewhere if this committee and the Senate Finance Committee agree we should do it elsewhere.

Mr. **Frenzel**. First, the committee has to tell you it is now appropriate for you to negotiate something if you can?

Mr. **Lighthizer**. Correct.

Mr. **Frenzel**. After you have been told to do that by the committee, then you still have to come back and get congressional approval, full approval of both Houses under the fast-track provision?

Mr. **Lighthizer**. Yes.

Mr. **Frenzel.** In the meantime, our discussions with Canada—because they relate to free trade on a sectoral basis—would not be covered by this 102 authority unless we decided to go full bore on that; is that correct?

Mr. **Lighthizer.** No, sir, under the Senate bill, we would be authorized to conduct negotiations with both Israel and Canada.

Mr. **Frenzel.** On a sectoral free trade basis?

Mr. **Lighthizer.** Sectoral with Canada, yes, sir.

Mr. **Frenzel.** Is that compatible with the GATT, do you judge?

Mr. **Lighthizer.** It may be necessary for us to get a waiver of the GATT, as we did in the auto pact.

Mr. **Frenzel.** I think what the Senate is doing seems to offer some not only additional possibilities but additional safeguards. It looks like an interesting proposal.

I thank you for your testimony. And I know Mr. Thomas, who has an abiding interest in some of these agricultural products, will want to be consulting informally with both of you.

Thank you.

Chairman **Gibbons.** Let me just talk about the Canadian request that you make, because over the years in the auspices of the United States-Canadian interparliamentary group I have talked with the Canadians about this matter. I learned years ago that it was far better from the Canadian point of view in their own domestic politics if they brought up the issue rather than me bringing up the issue.

I won't go into a whole lot of detail there, but based on my experience—and they recognize, too, that because of the size of the United States, if we propose something, it looks like we are pressing them or trying to take advantage of them. Both the Canadians and those of us who have dealt with the Canadians in that interparliamentary exchange, have come to the conclusion that it is far better if the Canadians move affirmatively first rather than us trying to move in that way and make ourselves available to negotiate.

So I have let it be known to the Canadian authorities that they are the ones that we dance with and not us making the proposal to dance. So I would prefer not to put any other countries in this bill at this time.

Now, my committee may overwhelm me on that, but I would hope provisions of the Downey bill can be maintained and that we can start out here with a new thrust, starting out with a friend; and even if anything goes wrong—and I don't think anything will go wrong—it will not severely injure the United States or any industry in this country. Perhaps if we deal with more and more people, we will learn by experience.

So, for two reasons—one, I think for Canadian concerns I would rather let them make the first move. I do not detect they have made the first move. They have talked informally with you about some sectoral negotiations, but they have not signified that they are willing to go to full-fledged negotiations as this legislation envisions.

I am afraid by us putting it forward, we will cool their ardor, if they have any for negotiations. That has been my experience with them.

I had the pleasure and the privilege in the learning experience of having dealt with them now for about 14 years in one way or another, either through NATO or through our interparliamentary exchange.

I would prefer to leave the Downey bill alone there.

Mr. LIGHTHIZER. May I comment on that, Mr. Chairman?

Chairman GIBBONS. Yes, sir.

Mr. LIGHTHIZER. I suspect that all your contacts have had some impact on them, because it is our strong feeling—to use your analogy—the Canadians have invited us to this dance.

Chairman GIBBONS. OK.

Mr. LIGHTHIZER. They had a study of their trade situation that came out at the end of last summer. The result of the blue ribbon panel was the suggestion that they approach the United States and ask us to negotiate on a sectoral basis free trade arrangements. I am told some among the blue ribbon panel favored going the whole way and having a free trade area; others did not. This was viewed from their side as a compromise.

It is something their government feels strongly about and is pushing it hard on us.

Chairman GIBBONS. If they want to dance, I am willing to dance. But if they just want to talk, I think I will wait.

Mr. LIGHTHIZER. I think they want to dance.

Chairman GIBBONS. Well, you tell them my address and they can come by and visit us and tell me they want to dance, and we can dance.

I made the mistake of suggesting this to them and almost got my head shot off. I learned from that experience.

Any other members with questions?

Mr. Thomas, glad to have you here. Mr. Thomas is not a member of our committee, but I have invited him and I invite every other member of the Ways and Means Committee, or other Members of Congress, to come on in and talk about this.

We are glad to have you, Mr. Thomas.

Mr. THOMAS. Thank you, Mr. Chairman.

I apologize to the administration representatives for my not being here for their testimony. If I ask you any questions that were covered already, just let me know.

When we talk about potential of an increased trade relationship with the free trade area between the United States and Israel, with the possibility, Mr. Lighthizer, that you indicated, that you believe their agricultural exports could increase under an FTA, specifically what products of agriculture, and where would the increase occur?

Mr. TRACY. Mr. Thomas, we mentioned briefly we thought some processed grain products, possibly tobacco, could benefit directly. But I think it is worth noting that our primary exports to Israel are in the grains, whole grains and soybean area—some $300 million; it is fairly substantial.

Of course, we would hope there would be potential for increases there as Israel developed, and we would hope this arrangement——

Mr. THOMAS. So you are talking about soybeans, tobacco, processed grains.

What might be the downside of the free trade area with Israel in the agricultural area? Can you name any, as you named in terms of the upside?

Mr. TRACY. What I did was name those which—where we have heard from the industries considering that their products are sensitive.

Mr. THOMAS. How many items?

Mr. TRACY. We have quite a list—tomato products, of course; citrus and citrus products; and a number of lesser, mostly horticultural.

Mr. THOMAS. Lesser? What do you mean by lesser?

Mr. TRACY. In terms of the size of the industry here in the United States.

Mr. THOMAS. In terms of the size of the industry in the United States? What about the impact to particular areas of the United States? Is it lesser in terms of the damage that a free trade area might create with those particular crops?

Mr. TRACY. No; I only mentioned in terms of the size of the industry. Citrus, of course, is a big industry in the United States.

Mr. THOMAS. How many specific items do you have? Thirty items, maybe?

Mr. TRACY. We have a couple of things. We do have a letter from you, sir, which I believe lists at least that many items. We have heard from others of a more limited list of about a dozen.

Mr. THOMAS. In your approach, you look at the nationwide picture, and if we can pick up another $100 million—even though perhaps you don't realize that almonds alone in trade with the EC, for example, are a quarter-billion dollars—if you add up the actual dollar amounts on this long list, the dollar amounts add up rapidly.

The significance is when you examine the specialty items, you find out that they are grown principally in one or two States and principally in very few congressional districts. And is it the judgment of the Department of Agriculture and USTR then that it is all right to sacrifice the economic base of a particular area as long as the United States overall benefits? Is that the approach?

Mr. TRACY. Well, Congressman Thomas, what we have stated in our testimony is that we are very aware of the sensitive nature of some of these items, and we feel that this needs to be taken into account as we approach the negotiations.

I, of course, have been very unwilling to try to tie up Ambassador Lighthizer so that he is limited in his negotiating ability when he enters the actual negotiations.

Mr. THOMAS. What do you mean by consider? Are we talking about creating a free trade area as free as the EC has with Israel? If that is what we are creating, I don't have many concerns since, as you know, 80 percent of the agricultural products are excluded in that relationship.

Are we going beyond that? What is the intention?

Mr. LIGHTHIZER. We are talking about going beyond that, Congressman.

Mr. THOMAS. What does "going beyond that" mean?

Mr. LIGHTHIZER. We would propose to include all of these products, at least at the beginning of the negotiation, and try to deal with the sensitivity issues through staging-in of the arrangement.

Mr. THOMAS. Tell me where you start. I am sure you have an idea. For example, Israel has come to request GSP on a number of items. I think our most recent battle was over black olives. They were denied. As a matter of fact, they came back twice and they were denied twice.

Is this an item that would be automatically excluded under this, or are our folks going to have to fight the battle again about getting black olives excluded from a FTA? What criteria are you talking about using in terms of excluding agricultural products that clearly are sensitive and that we have had questions over recently?

Mr. LIGHTHIZER. Rather than excluding, Congressman, we would prefer to deal with the sensitive products through staging-in.

To answer your question specifically, because something is not qualified for GSP does not mean it will be eliminated from these negotiations.

Mr. THOMAS. The administration is currently trying to renew GSP. They have provided changes within the renewal proposal which would provide for graduation of particular nations if they don't meet the real purposes for which GSP was established.

Clearly Israel is one of the leading candidates for graduation. If the administration's proposal had any chance of passing based on a realistic response to the need in terms of the way Congress sees that need, Israel would have lost its GSP preference on a number of agricultural products by virtue of graduation under the administration's own proposal.

You are telling me now that all those items are up for re-discussion under a FTA proposal that the administration offers. Why, on the one hand, does the administration say that these agricultural commodities I represent are going to be finding relief because we will graduate Israel under GSP if you adopt our proposal, and then you turn around and tell me there is no basis for any kind of understanding going into the FTA about those products that are on the GSP list we have already won?

Mr. LIGHTHIZER. Let me make two points in response to that.

In the first case, GSP is a unilateral grant by the United States. It is not reciprocal.

Mr. THOMAS. I understand that.

Mr. LIGHTHIZER. In the second case, countries such as Israel who would be graduated would have the right to seek a higher level of benefits.

Mr. THOMAS. I will make the question a little blunter, then.

What is there that I can take back to my people that would give them some feeling of satisfaction that this administration, this President from California, understands the sensitivity of specialty agriculture and is not giving away the American market to Israel?

Mr. LIGHTHIZER. I will ask the Agriculture Department to respond in terms generally of what the administration's views are on specialty agriculture. But I think the procedure the administration favors in this case, Congressman, which is to submit this bill through a very complicated procedure back through the Congress, in which case Members will have an opportunity to vote against it and indeed to urge us to review the negotiations so as to provide an additional amount of assurance to your constituency.

Mr. **Thomas**. I appreciate the fact I can vote against the measure. I didn't come here to vote against anything. I didn't want to oppose the administration.

I want to put together a compromise that no one is damaged by. I appreciate your telling me I can vote against it; that is my choice. I would appreciate openness in terms of willingness to sit down and discuss a list of agricultural products.

What about pistachios? For example, Israel exported pistachios to the United States and they show no indication of growing pistachios. One of the concerns voiced to me by a number of growers is what assurances they have Israel will not be a transshipment and minor processing point for the North African pistachio?

Do we have an indication that that will be discussed, or do I have a choice of voting "No" on the bill?

Mr. **Tracy**. Mr. Thomas, we did discuss that earlier.

Mr. **Thomas**. And can you give me a quick response?

Mr. **Tracy**. Just that we would expect to include a provision on rules of origin that would be modeled after the CBI and GSP legislation.

Mr. **Thomas**. What about crops currently not produced in Israel and produced in significant numbers in the United States—or are we going to create an incentive for Israel to go after markets that currently are not available to them?

What about the possibility of Israel then moving products? Because, as we know, Spain and Portugal, the assumption is they will assume a position in the EC and they raise Mediterranean products as well.

Is there any concern about movement of products currently going to the EC but because of a change in the makeup of the EC, Israel is looking for a place to send them and it is going to be a convenient arrangement to have a free trade area between Israel and the United States to move the crops into the United States? Is there any understanding or guarantee that this won't occur?

Mr. **Tracy**. Yes; there is concern about this issue.

One point also brought up before is that we are not in a position at this point to decide on specific product coverage and specific tariff treatment for individual products.

Mr. **Thomas**. To what extent do the people who raise these products and have real concerns about the potential for Israel in terms of moving products around—and I appreciate your indication that you are going to be clever enough to be able to determine whether it is transshipment or whether there is a minor processing going on, although I think you will find you have had difficulty doing that in a number of other areas—I am looking for some kind of indication that the people who are going to be directly affected probably most significantly in a negative way in this FTA have an opportunity to try to present a factual case other than me going back and telling them "I was told by this administration, my administration, that my choice was to vote 'no' on the bill," that that is the prerogative I have.

Is there any indication at all we are going to have an opportunity to sit down and try to present some figures to you?

Mr. **Lighthizer**. Congressman, if I gave you the impression in response——

Mr. THOMAS. You didn't give me an impression; you said that.

Mr. LIGHTHIZER. All I was saying is you could oppose our proposal. Let me assure you that is not the only opportunity you have to express your views.

We have had hearings at ITC, USTR, interagency hearings, we have had an obligation under 102 clearly stated in the statute to consult with our private sector people as well as with the Congress.

The procedure is set up to develop a dialog extensively. It has been done to some extent so far. If we are granted this authority and 102 becomes applicable, there is a very detailed procedure that has time frames and requires the kind of congressional consultation and private sector consultation which is described in the statute and which we have used in the past, most recently in the major trade bill in 1979. So there is ample opportunity for input.

Members of the Ways and Means Committee will actually have a markup of the legislation, which is a very unusual procedure.

It is in the nature of a markup where they sit and go through the implementing legislation and the administrative practices line by line and suggest changes. At the end of that 90 days, the bill is then submitted to the full House on a fast track, for a vote up or down on it.

Mr. THOMAS. To what extent does the administration see this as a blueprint for use in other bilateral relationships between the United States and other countries? Is it important to get it right this time in case this is a kind of an approach that the United States wants to use?

Does the United States want to use this?

Mr. LIGHTHIZER. We feel——

Mr. THOMAS. With other nations?

Mr. LIGHTHIZER. Pardon me. We feel that it has advantages in the case of Israel and advantages on a sectoral basis in the case of Canada, and with respect to other countries, we would propose to study them, seek the advice of Congress, and see if it is in our economic interests.

Mr. THOMAS. What about Mexico?

Mr. LIGHTHIZER. There is no proposal do to that with Mexico.

Mr. THOMAS. Brazil?

Mr. LIGHTHIZER. No proposal there.

Mr. THOMAS. Chile?

Mr. LIGHTHIZER. There has been no proposal to do such an arrangement with Chile.

Mr. THOMAS. If you examine it would you examine the Israeli-United States free trade area as a guideline?

Mr. LIGHTHIZER. Yes, sir.

Mr. THOMAS. Do you understand why we are so concerned that we make sure that in this initial process rather than simply having an opportunity to vote "No," that we try to have some inputs so that it is done in a way in which we won't have some future battles that will get a whole lot more difficult?

Mr. LIGHTHIZER. Yes, sir.

Mr. THOMAS. Thank you.

Thank you, Mr. Chairman.

Chairman GIBBONS. Thank you, sir.

Mr. Conable, do you have any questions.

Mr. **Conable**. No; Mr. Chairman, I don't.

Chairman **Gibbons**. Any other members have questions of the administration?

Mr. Schulze.

Mr. **Schulze**. Thank you, Mr. Chairman.

Chairman **Gibbons**. Don't leave, Mr. Thomas, we are glad to have you here.

Mr. **Thomas**. I will sit in the back row for a while since I am not on the subcommittee.

Chairman **Gibbons**. No; you come up to the front pew.

Mr. **Thomas**. I'm fine.

Chairman **Gibbons**. Mr. Schulze.

Mr. **Schulze**. Thank you, Mr. Chairman.

Gentlemen, is this an excuse for the administration to have broad negotiating authority to reduce tariffs and with the idea that most Members of Congress, of course, feel very sympathetic toward the State of Israel, and as a consequence, would support this legislation so you have an opportunity to do things here without our direct general oversight?

Mr. **Lighthizer**. No; I don't believe it is, Congressman.

Mr. **Schulze**. Then you would have no objection to it being very narrowly drawn?

Mr. **Lighthizer**. Our proposal is to amend section 102 and to provide that we have the sort of oversight, cooperation, and consultation with the Congress which we expect to follow during this procedure.

Mr. **Schulze**. When I had to leave before, we had just started talking about subsidies. Has Israel signed the subsidies code?

Mr. **Lighthizer**. No; they have not.

Mr. **Schulze**. Any reasons for that?

Mr. **Lighthizer**. We have just not been able to come to agreement with them, Congressman. The focus——

Mr. **Schulze**. It is not necessarily just with us.

Mr. **Lighthizer**. No; but in terms of our talks with them, the talks have centered on the nature of subsidies and phaseouts and the like.

Mr. **Schulze**. You wouldn't mind if the legislation was crafted so that subsidies code—or the agreement was an integral part of the legislation?

Mr. **Lighthizer**. We, Congressman, believe that the better approach is to have us include in the agreement with Israel, certain restrictions with respect to subsidies and that is part of the negotiations and the input of this committee will be important in the process.

Mr. **Schulze**. If you could tell us what they were before we legislated, we would have no problem with it.

Mr. **Lighthizer**. Under this procedure that we propose, Congressman, we would do precisely that. We would come back and during the 90-day period, go over those details with you and give you an opportunity to, on a line-by-line basis, make alterations before we ask the committee or the Congress to vote on the legislation implementing the agreement.

Mr. SCHULZE. In effect you are free to negotiate right now. You are just not free to conclude negotiations or agreement, is that correct?

Mr. LIGHTHIZER. No; not precisely. The Constitution gives the President the right to negotiate. What we are—and the only thing we are asking for in this legislation is the right, after we conclude an agreement subject to these rules and regulations, to come back and use the so-called fast-track procedure.

Mr. SCHULZE. This is the same fast-track procedure we used on the Tokyo round?

Mr. LIGHTHIZER. Yes, sir.

Mr. SCHULZE. I would like to shift now to specific products and problems.

How could we solve some of those problems, for instance, cut flowers, roses, jewelry, tomatoes, how would you recommend they be solved?

Mr. LIGHTHIZER. We would propose, Congressman, to deal with them through staging in of the agreement. In many cases, there are limitations on the extent to which Israel can really come into this market and take advantage of it.

In the case of cut flowers, with the exception of roses, they have GSP duty-free access right now. In many other products, they are in a position where they are a small country with very high wage rates and with certain natural resource handicaps that are not going to allow them to come in and flood this market.

Mr. SCHULZE. Mr. Ambassador, that is true but you know and I know that everybody, every nation that appears before this committee and every Third World country says our percentage of your market is only one-half of 1 percent or 1.2 percent or two-tenths of 1 percent, and we would look like the big old mean ogre if we are going to do anything to restrict that poor individual country, but by the time you accumulate all of this, it has a dramatic impact on the work force in this country. We not only must, it is our job to take that into consideration.

I believe you are going to put some restrictions in this legislation if we are going to get enough broad support to get it through. We may all think this recession is over and everything is hunky-dory, but the recession has left an indelible impression on the workers and the people of this country and we are not going to see these jobs and our economy just thrown away by a trade agreement here and a trade agreement there.

I do not intend to try to block this legislation, but I think if you don't or are not willing to negotiate some very meaningful restrictions, you are going to have a hard time getting this legislation through.

Thank you, Mr. Chairman.

Chairman GIBBONS. Further questions?

If not, thank you very much.

Our next witnesses are the American Israel Public Affairs Committee, Dr. Thomas A. Dine, executive director; and the American-Israel Chamber of Commerce and Industry, Inc., Lee W. Greenberg, director of trade policy of the national office and vice president of the western region, accompanied by Mr. Sidney N. Weiss, trade counsel.

Let me repeat again, while the witnesses are taking their seats, this is not the concluding hearing on this matter. I had planned to hear many more witnesses today and tomorrow, but because of the press of legislative business in my own schedule I can't sit in on these hearings. I would like to hear all of them, so I will ask the witnesses who want to testify to be available right after the district work period that ends in early June.

Also, I will probably be a member of the tax conference and that may mean we will have to have these hearings early in the morning or late in the evening in order for me to be present. Perhaps some other member could chair them if I will not be present.

We welcome you, gentlemen. And who proceeds first? Mr. Dine.

STATEMENT OF THOMAS A. DINE, EXECUTIVE DIRECTOR, AMERICAN ISRAEL PUBLIC AFFAIRS COMMITTEE, ACCOMPANIED BY ESTER KURZ, DEPUTY DIRECTOR OF LEGISLATIVE AFFAIRS

Mr. DINE. Thank you, Mr. Chairman.

Chairman GIBBONS. You may read your statement, make it any way you want or we will put it in the record for you.

Mr. DINE. I am Thomas Dine, executive director of the American Israel Public Affairs Committee. I would appreciate it if my whole statement could be submitted for the record.

Chairman GIBBONS. Without objection, we will put it in the record any place you designate.

Mr. DINE. Thank you. I am pleased to have the opportunity to appear before the House Ways and Means Subcommittee on Trade to express AIPAC's position regarding the establishment of a free trade area between the United States and Israel.

I want to commend you, Mr. Chairman, Mr. Vander Jagt and Mr. Frenzel and particularly Mr. Downey for introducing H.R. 5377.

The American Israel Public Affairs Committee [AIPAC] is a domestic lobbying organization concerned with U.S. foreign policy, especially as it relates to the United States-Israel relationship.

On AIPAC's executive committee sit the presidents of 38 major American Jewish organizations representing more than 4½ million members throughout the United States.

Recognizing that mutually advantageous commercial relations between Israel and the United States are important for both nations for economic as well as political and strategic reasons, AIPAC strongly supports the establishment of a free trade area between the two nations and the legislation required to negotiate and implement an FTA.

I believe that the elimination of tariff and nontariff barriers on a broad array of products and services traded will, in the medium and long term, increase the two-way flow of trade and investment in a way that will strengthen the economies of both nations.

Moreover, because of Israel's small size and limited production capacity relative to the United States, there is little reason to fear major effects from increased Israeli imports into the United States.

The proposed free trade area is therefore a two-way gain—both countries will reap benefits from the agreement. It would be both good trade policy and sound foreign policy for the United States. It would also be a meaningful step toward solidifying the unique relationship between our two democratic nations.

Israel shares with the United States a heritage of democratic traditions and Judeo-Christian values, and is a member of the family of free nations. Its democratic character is rooted in the principle that Government derives its legitimate power from the people, who express themselves through open elections, unfettered freedom of speech, free trade unions, a robust free press, and other rights protected by an independent judiciary.

Israel is one of the great success stories of the democratic experience in the modern world. In addition, poll after poll has shown that Americans have felt a special affinity for Israel since its birth as a nation in 1948. That support has also been reflected in Congress which has been consistent in its moral, economic and military support for Israel throughout the years.

Israel is, additionally, a country of considerable strategic importance to the United States and the West. Its critical location at the anchor of the Mediterranean basin and in the heart of the Middle East, the fighting strength of its armed forces, and its commitment to prevent the Soviet Union and Soviet-allied forces from becoming the dominant powers in the region, make Israel a strategic ally of great value in this critical part of the world. A strong Israel is in America's best interests.

But Israel's strength and free institutions depend as much on the health of their economic foundations as they do on their military. These economic foundations are, as you well know, under great stress.

Israel is staggering under the burden of financing its defense, trying to maintain a military balance vis-a-vis a coalition of adversaries who have almost as many aircraft and tanks as NATO.

Since 1973, several of the Arab League states have enjoyed an enormous infusion of wealth generated by inflated oil prices, and they have devoted a great share of this to amassing arms against Israel.

Israel is forced to devote over a third of its resources to defense—compared to 6 percent in the United States and 1 percent in Japan. As a result, Israel's debt burden reached $28 billion in 1983—more than its entire GNP.

Israel is also currently struggling against a spiral of high inflation which could reach 400 percent based on the past few months. Over the long term, moving toward a more open trading system should help Israel in its battle against both of those problems.

One unique factor that imposes a great strain on the Israeli economy is the refusal of its neighbors to engage in normal trade. Beyond denying their own markets, the Arabs have employed the economic boycott and petro-pressures to close many Third World markets to the Jewish State.

As a result, Israel, which is dependent on imports and exports, has been forced to concentrate largely on the markets which remain open in Europe and North America. The Common Market countries and the United States are the lifelines of Israel's economic existence, and thus fluctuations in the import duties and policies of these markets reverberate throughout the Israeli economy.

In a country where almost 50 percent of the gross national product is exported, where imports are equivalent to over 60 percent of GNP, and where there is a scarcity of land and natural resources, it makes good economic sense to throw down the trade barriers and let the markets function freely, rather than go down the well-trodden path of protectionism.

A free-trade area with the United States would greatly help in this regard by providing a stable and dependable market for Israel's exports, free from the uncertainties of the present generalized system of preferences [GSP].

Furthermore, a free trade area that provides for the elimination of tariff and nontariff barriers on a broad array of goods and services will, in the medium and long term, increase the flow of trade and investment in a way that will strengthen the economies of both nations. It is important to remember that, unlike GSP or the CBI, this would be a wholly reciprocal arrangement, or as you mentioned earlier, Mr. Chairman, zero barriers.

I want to go to my conclusion.

Establishment of a free trade area is a step the United States can take to help Israel while helping the United States. Both countries will reap benefits from the arrangement. It will be good for the American economy, strengthen a vital ally in the Middle East, and reaffirm the bonds between ourselves and a fellow democracy.

Thank you.

[The prepared statement follows:]

STATEMENT OF THOMAS A. DINE, EXECUTIVE DIRECTOR, AMERICAN ISRAEL PUBLIC AFFAIRS COMMITTEE

I am pleased to have the opportunity today to appear before the House Ways and Means Subcommittee on Trade to express AIPAC's position regarding the establishment of a Free Trade Area between the United States and Israel.

The American Israel Public Affairs Committee (AIPAC) is a domestic lobbying organization concerned with U.S. foreign policy, especially as it relates to the U.S.-Israel relationship. On AIPAC's Executive Committee sit the presidents of 38 major American Jewish organizations representing more than four and a half million members throughout the United States.

Recognizing that mutually advantageous commercial relations between Israel and the United States are important to both nations for economic as well as political and strategic reasons, AIPAC strongly supports the establishment of a Free Trade Area between the two nations and the legislation required to negotiate and implement an FTA. I believe that the elimination of tariff and non-tariff barriers on a broad array of products and services traded will, in the medium and long-term, increase the two-way flow of trade and investment in a way that will strengthen the economies of both nations. Moreover, because of Israel's small size and limited production capacity relative to the U.S., there is little reason to fear major effects from increased Israeli imports into the U.S. The proposed Free Trade Area is therefore a two-way gain--both countries will reap benefits from the agreement. It would be both good trade policy and sound foreign policy for the U.S. It would also be a meaningful step towards solidifying the unique relationship between our two democratic nations.

Israel shares with the U.S. a heritage of democratic traditions and Judeo-Christian values, and is a member of the family of free nations. Its democratic character is rooted in the principle that government derives its legitimate power from the people, who express themselves through open elections, unfettered freedom of speech, free trade unions, a robust free press, and other rights protected by an independent judiciary. Israel is one of the great success stories of the democratic experience in the modern world. In addition, poll after poll has shown that Americans have felt a special affinity for Israel since its birth as a nation in 1948. That support has also been reflected in Congress which has been consistent in its moral, economic and military support for Israel throughout the years.

Israel is, additionally, a country of considerable strategic importance to the U.S. and the West. Its critical location at the anchor of the Mediterranean basin and in the heart of the Middle East, the fighting strength of its armed forces, and its commitment to prevent the Soviet Union and Soviet-allied forces from becoming the dominant powers in the region, make Israel a strategic ally of great value in this critical part of the world. A strong Israel is in America's best interests.

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Israel is staggering under the burden of financing its defense, trying to maintain a military balance vis-a-vis a coalition of adversaries who have almost as many aircraft and tanks as NATO. Since

1973, several of the Arab League states have enjoyed an enormous infusion of wealth generated by inflated oil prices, and they have devoted a great share of this to amassing arms against Israel. Israel is forced to devote over a third of its resources to defense - compared to 6% in the U.S. and 1% in Japan. As a result, Israel's debt burden reached $28 billion in 1983 - more than its entire GNP. Israel is also currently struggling against a spiral of high inflation which could reach 400% based on the past few months. Over the long term, moving toward a more open trading system should help Israel in its battle against both of those problems.

One unique factor that imposes a great strain on the Israeli economy is the refusal of its neighbors to engage in normal trade. Beyond denying their own markets, the Arabs have employed the economic boycott and petro-pressures to close many Third World markets to the Jewish state. As a result, Israel, which is dependent on imports and exports, has been forced to concentrate largely on the markets which remain open in Europe and North America. The Common Market countries and the United States are the lifelines of Israel's economic existence, and thus fluctuations in the import duties and policies of these markets reverberate throughout the Israeli economy.

In a country where almost 50 percent of the gross national product is exported, where imports are equivalent to over 60 percent of GNP, and where there is a scarcity of land and natural resources, it makes good economic sense to throw down the trade barriers and let the markets function freely, rather than go down the well-trodden path of protectionism.

A Free Trade Area with the United States would greatly help in this regard by providing a stable and dependable market for Israel's exports, free from the uncertainties of the present Generalized System of Preferences (GSP). (Hopefully, despite its uncertainties, the GSP will be renewed this year and Israel can continue to benefit from it until the FTA is fully implemented.)

Furthermore, a Free Trade Area that provides for the elimination of tariff and non-tariff barriers on a broad array of goods and services will, in the medium and long-term, increase the flow of trade and investment in a way that will strengthen the economies of both nations. It is important to remember that, unlike GSP or the CBI, this would be a wholly reciprocal arrangement.

The mutual elimination of tariffs between the European Community and Israel, scheduled to go into full effect by 1989, makes it imperative for the U.S. to enter into a similar kind of agreement as soon as possible, to avoid a continuing U.S. loss of market share in Israel. For the past few years, the U.S. has maintained a fairly consistent surplus in merchandise trade with Israel on the magnitude of $400 to $600 million per year. Last year, the U.S. exported a record $1.7 billion to Israel in civilian goods alone, making Israel one of the three largest markets for American products in the Middle East. However, U.S. companies could lose tens of millions of dollars in Israeli sales if the final stages of the European-Israel free trade arrangement are implemented without a corresponding agreement between the United States and Israel. Already, according to the Manufacturers Association of Israel, the EC's share of the Israeli imports has been gradually increasing from 33.7 percent in 1980, to 40.9 percent in the first three quarters of 1983. In contrast, the U.S. share dropped to 18.9 percent, from 19.3 percent in 1980 and 20.2 percent in 1979. That share of an $8 billion market will probably drop further--unless similar arrangements are made with the United States--as duties are completely eliminated on EC-manufactured products entering Israel by 1989.

The U.S. government has already received numerous complaints from firms that a wide variety of American products are being disadvantaged by the EC-Israeli agreement, among them: fiberglass products, slide fasteners and parts, wire of various substances, culture medium, food additives, compactors, X-ray equipment, film and graphics arts processors, computer tapes and discs, and cellophane. With a U.S.-Israel FTA in place, however, the Israeli-European agreement could be turned to our advantage since American firms could then use U.S. components shipped duty-free from the United States to Israel, incorporate them into products manufactured in Israel, and then sell them duty-free to the large European market. Over 150 U.S. corporations currently have established subsidiaries or branches in Israel, and interest in Israeli companies as joint venture partners is growing.

Increasing American exports to friendly trading partners like Israel offers positive economic benefits for the U.S. economy, such as stimulating growth and production in a non-inflationary environment and creating new jobs. One billion dollars worth of exports creates about 25,000 American jobs, according to U.S. government estimates.

The U.S. is bound to benefit greatly from an FTA, since currently

40 to 45 percent of our exports face Israeli tariffs (in contrast, 10 percent of Israeli products face U.S. duties). If Israeli tariffs were eliminated under an FTA, U.S. exports would probably increase in the areas of electrical and electronic equipment; processed grain and other processed food products; office machinery and computers/data processing equipment; power generating machinery and equipment; tobacco products; paper products; telecommunications and transport equipment; and a wide variety of consumer goods. Addressing non-tariff barriers in the FTA--including those in the services and investment area--should stimulate an increase in U.S. service exports to Israel as well. Israel imported $6 billion worth of services in 1982, a sector in which the U.S. is competitive worldwide.

In addition, increasing Israeli exports will be beneficial not only to Israel but to the U.S. as well, since Israel will use some of the foreign exchange earned to purchase more final products and product inputs from the U.S., its number one trading partner. Earning foreign exchange from increased exports will also help Israel to service its debt, a large portion of which is owed to the United States. In addition, Israel offers some new advanced technologies in such specialized fields as fiber optics, robotics, irrigation, and solar energy which could greatly benefit Americans in an environment of increased economic cooperation.

While the U.S. has much to gain from an FTA in terms of increased exports and stimulation of joint venture opportunities with a nation rich in technological know-how, Israel is so small that there is little risk of the American market becoming swamped by Israeli imports. Israel is a small nation of four million people, its export potential limited by a restricted supply of labor and a shortage of natural resources. Israel's total exports to the U.S. are at most one half of one percent of total imports coming into the United States. Even if Israel could, as Israeli Prime Minister Shamir predicted, increase exports to the U.S. by as much as 30 percent under an FTA, exports to the U.S. would still be less than $2 billion per annum, or $1.7 billion using 1983 figures as a base.

There has been opposition expressed by some American agriculture groups to the FTA, but such concern must be viewed in perspective. In agriculture, Israeli capacity to increase its production is limited by a lack of water as well as land. Overall, the U.S. has a tremendous comparative advantage in agriculture, as evidenced by the balance of trade statistics. In 1983, for example, which was a bad year in many respects for U.S. agricultural exports due to the overvalued dollar, the U.S. exported $306 million worth of farm products to Israel, while importing only $51 million worth--a six-fold surplus, according to U. S. Agriculture Department statistics. Morover, most of Israel's food exports go to Europe which is the logical market for Israeli products, particularly for perishable commodities. According to the Bank of Israel's 1982 Annual Report, in the 1980 to 1981 period, only 0.9 percent of Israel's agricultural exports went to the U.S., while almost 90 percent went to European markets.

General concern has also been expressed about the entry of cheap foreign goods into the U.S. that are manufactured in countries where the cost of production is low. But this concern is not appropriate in the case of Israel. Although on average an American worker receives about twice the salary level of his Israeli counterpart in the manufacturing sector, Israeli manufacturers do not necessarily enjoy a cost advantage compared to American producers. According to the Manufacturers Association of Israel, U.S. productivity is far higher than Israel's--about two to three times as high. In addition, the Israeli manufacturer pays far greater costs for each employee's income tax and social security, plus the cost of hiring extra labor to compensate for army reserves call-ups. The Israeli manufacturer also faces extremely high interest rates, and higher costs for energy and natural resources compared to the American producer counterpart. Therefore, in traditionally import sensitive sectors of the U.S. economy such as textiles and footwear, the U.S. balance of trade with Israel has regularly favored the United States.

We know that other sectors of U.S. industry and agriculture have advocated that they be excluded from any legislation authorizing an agreement that is signed with Israel. But, if numerous exceptions are included, our negotiators would not be able to conduct a broad-strategy of trading advantages over the negotiating table. Also, from the Israeli perspective, since so many of their goods (90%) already receive duty-free treatment, it would hardly be to their advantage to conclude an agreement riddled with more exceptions than they live with under current arrangements. From an international perspective, it is also important that "substantially all trade" be covered in order to conform with the rules of the General Agreement on Tariffs and Trade (GATT). Otherwise, both countries would leave themselves vulnerable to other nations charging that the arrangements contravene the GATT and the threat of trade retaliation. The best way to deal with the threat of possible surges and material injury to U.S. industry is to utilize U.S. trade laws if needed, on a case-by-case basis.

Negotiating a U.S.-Israel FTA would not in any way be a diminishment of either country's commitment to the General Agreement on Tariffs and Trade and the multilateral approach to trade issues. An FTA is a perfectly legitimate trade-liberalizing mechanism which is recognized by the GATT specifically in one of its articles. A reciprocal elimination of trade barriers is a longstanding goal of U.S. trade policy which would be strengthened by the realization of such an agreement.

In conclusion, establishment of a Free Trade Area is a step the United States can take to help Israel while helping the U.S. Both countries will reap benefits from the arrangement. It will be good for the American economy, strengthen a vital ally in the Middle East, and reaffirm the bonds between ourselves and a fellow democracy.

Thank you, Mr. Chairman, for the opportunity to testify and for the interest you and other members of the Subcommittee have expressed in the issue.

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Questions and Answers Regarding the Proposed Free Trade Area Between the United States and Israel

I. GENERAL

1. QUESTION: What is a Free Trade Area (FTA)?

ANSWER: An FTA is an agreement between two or more trading partners, whereby "the duties and other restrictive regulations of commerce are eliminated on substantially all the trade" between them, according to the General Agreement on Tariffs and Trade (GATT). Israel currently has an FTA with the European Community (EC).

2. QUESTION: What is the role of Congress in implementing an FTA?

ANSWER: Since the Constitution vests in Congress the power to "lay and collect . . . duties," Congress must delegate authority to the President to enable him to conclude an FTA agreement with Israel.

3. QUESTION: Will the U.S. be deviating from its commitment to multilateral trading, as expressed in the Multilateral Trade Negotiations (MTN) and the GATT, and from most favored nation (MFN) principles, if it enters into an FTA?

ANSWER: Article XXIV of the GATT specifically sanctions such free trade arrangements when they cover substantially all trade. Therefore, the FTA, unlike the one-way Caribbean Basin Initiative, is expressly permitted under multilateral commitments. But in order to keep the agreement GATT-legal, the FTA must cover substantially all trade--without numerous exceptions or exclusions of various products.

4. QUESTION: At a time of growing U.S. trade deficits, is the additional reduction of tariffs a good idea?

ANSWER: The U.S. historically has had a trade surplus with Israel. In 1983, the U.S. had a surplus in goods of over $400 million, excluding U.S. military exports. With the European Community, where Israel already has an FTA, Israel had a trade deficit of $900 million in 1981 and $1.2 billion in 1982.

Israel's economy is so small relative to the U.S. that there is little danger of the U.S. being deluged with Israeli imports. Israel's total GNP in 1983 was about half of IBM's gross sales. It is also important to remember that this will allow U.S. exporters a competitive position in the $8 billion Israeli market, particularly after the EC-Israeli FTA is fully implemented in 1989.

5. QUESTION: What assurances are there that third countries will not be able to ship their products to Israel in order to get those products into the U.S. duty-free via the FTA?

ANSWER: The danger of market disruption from pass-through shipments will be avoided by establishing Rules of Origin such as those used for the Generalized System of Preferences (GSP) or the Caribbean Basin Initiative (CBI). For example, the CBI specifically requires substantial transformation of the product, not mere dilution or combining operations. A similar provision is contained in the Israel/EC Free Trade Arrangement, and there have been virtually no complaints against Israel about a violation of these rules.

6. QUESTION: If the U.S. signs an FTA with Israel, will this set a precedent for a quick succession of many bilateral agreements negotiated with other countries?

ANSWER: This is an unlikely scenario because 1) it would not be in the U.S. economic interest to have an FTA with various countries such as those that have a trade surplus with the U.S. or that have cheap labor markets, and 2) few countries would be as willing as is Israel to eliminate their protective tariffs and other trade barriers in a truly reciprocal fashion. For example, the U.S. government offered to discuss with Egypt, as well as Israel, an FTA, but Egypt was not interested in the offer.

II. BENEFITS TO THE UNITED STATES

1. QUESTION: Can there be an advantage to U.S. manufacturers under an FTA where the Israeli local market is less than four million people?

ANSWER: Israel is the second (or at times the third) largest importer of U.S. products in the Middle East, with $1.5 to $1.8 billion of its total $8 billion non-military imports coming from the U.S. For manufacturers with an interest in the Israeli market, the formation of an FTA would improve their competitive position. At the present time, about 40-45% of American exported products face duties in Israel, compared to 10% of Israel's exports facing duties in the U.S. today. A substantial number of U.S products would be in a good position to increase their sales to Israel, once the FTA is in effect and tariffs are eliminated.

Moreover, the EC and Israel have an FTA. Once that agreement is fully implemented, U.S. exporters will be at a disadvantage in Israel's markets in the absence of their own FTA.

Already, according to the Manufacturer's Association of Israel, the EC's share of Israel's imports has been increasing--from 33.7% in 1980 to 40.9% in the first three quarters of 1983. In contrast, the U.S. share dropped to 18.9% in 1983, from 19.3% in 1980 and 20.2% in 1979.

2. QUESTION: What is the potential of the Israeli market to absorb U.S. goods and services?

ANSWER: The Israeli import market amounted to $8.1 billion dollars worth of goods and $6 billion worth of services in 1982. That $8.1 billion market consisted of consumer goods ($832 million), production inputs ($6 billion), and capital goods ($1.3 billion). This market has the potential to grow. Because Israel requires imported inputs to produce many finished products, the market for imported products will expand as Israel exports more finished products.

As the FTA is phased in, many U.S. products will also be substituted for European products currently enjoying more favorable import duties.

3. QUESTION: Can Israel cut back on imports as part of its present economic policies and at the same time provide for expanded imports from the U.S. under the FTA?

ANSWER: The policies being implemented in Israel are aimed at reducing the disposable income of the average citizen, and thus lessening consumption. This may cause some reduction in sales of consumer goods, but certainly not in areas that involve investments in export industries and economic growth. For example, U.S. components used in export products would be in high demand. Products, whether entering under a U.S. or European Free Trade Area with Israel, would enjoy the same competitive opportunities as Israeli products.

4. QUESTION: Can U.S. manufacturers get an edge on European manufacturers if there is an FTA between Israel and the United States?

ANSWER: In 1989, Israel's free trade agreement with the EC will be fully implemented and all products included will enter Israel from the EC duty-free. This means that at that time, if there is no FTA with the U.S, American products will face an average duty of 10.5% as compared to a "0" duty on EC products.

5. QUESTION: What are some of the U.S. industries that would benefit from the proposed FTA between Israel and the United States?

ANSWER: The following are a sampling of U.S. industries that would likely benefit from an FTA: electrical and electronic equipment; processed grain and other processed food products; office machinery and computers; data processing equipment; tobacco products; textiles and paper products; power generating and other machinery and equipment; telecommunication and transport equipment; and a wide variety of consumer goods, including home appliances.

Services, such as banking, insurance, credit institutions, data and information services, tourism and franchises, would also benefit.

6. QUESTION: What other sectors in America will benefit economically from an FTA besides U.S. exporters and importers?

ANSWER: U.S. consumers--companies which use imported components and sell imported merchandise, as well as individual shoppers--would benefit from being able to purchase high quality goods from Israel without paying the hidden tax of tariffs.

Also, when the U.S. increases its exports, as is likely under an FTA, new jobs for the American labor force are created. One billion dollars worth of exports creates about 25,000 American jobs according to U.S. government estimates.

III. BENEFITS TO ISRAEL

1. QUESTION: If 90-95% of the value of Israel's products being sold in the U.S. are already coming into the U.S. duty-free under multilateral programs, such as the GSP, or MFN provisions, why is it important to Israel to have an FTA with the U.S.?

ANSWER The FTA is important to Israel despite the existence of the GSP program for the following reasons:

a. The future of the GSP is uncertain--the GSP legislation is due to expire in January 1985 and there is no certainty that it will be extended at all, or, if extended, whether its terms would be as favorable to Israel as under current legislation.

b. The GSP is a program not specific to Israel, but shared with 140 other developing countries. This means that Israel could be affected by a change in GSP legislation or policy due to problems that the U.S. has with other countries. An FTA would be specific to Israel.

c. The competitive-need limits of the GSP make Israel dependent on other countries' actions. For example, when Iran stopped exporting licorice after the turmoil created by the overthrow of the Shah, Israel's share of the U.S. licorice import market grew to over 50%. As a consequence, Israel lost GSP benefits for licorice--even though Israel's exports did not increase absolutely.

d. The GSP program has some inherent disadvantages: there are possibilities of exclusions from the program, either of specific items or of countries, once certain conditions are reached. These are obvious impediments to progress for certain industries that could be "punished" for passing a certain threshold of development and success.

e. The GSP covers only certain products. The FTA is intended to be as comprehensive as possible and to include all products as well as services.

2. QUESTION: Is it important for Israel to have the GSP if there is to be an FTA?

ANSWER: The GSP is still important to Israel for the simple reason that the FTA is only at the discussion phase. No one knows when it will come into effect, on what terms, and whether it will include all products.

In addition, it is likely that under the FTA, duties will be staged down over a period of years. Israeli exporters will need the GSP during the stage-down period.

3. QUESTION: Why does Israel want an FTA with the U.S.?

ANSWER: The United States is still Israel's single largest trading partner in terms of bilateral trade, and the two nations share many of the same political and strategic objectives. Considering that many neighboring countries' markets, and some Third World countries as well, are closed to trade with Israel because of economic boycotts, establishing strong and stable commercial ties with friendly nations like the U.S. is vital for Israel.

4. QUESTION: What Israeli products do not currently enter the U.S. duty-free and what impact would an FTA have in those sectors?

ANSWER: Certain agricultural products; textile yarns and fabrics; apparel; pharmaceuticals and chemicals; basic metal products; and electronic components, not now duty-free, could receive duty-free treatment under the FTA.

The impact of duty-free treatment for these products on U.S. industries will be minimal. Israel does not have the capacity to export large quantities of these products. Moreover, Israel's products are not inexpensive. Finally, the FTA will include a safeguards provision to protect any industry adversely affected should there be a surge of exports of a particular product.

IV. LABOR

1. QUESTION: How do the labor rates paid in Israel compare to those paid in the United States and other countries? Would an FTA with Israel cause a surge of labor-intensive imports?

ANSWER: Israel is not a low wage country and has a strong and powerful labor union, claiming some 90% of Israel's labor force. (In contrast, only 15-20 percent of the U.S. labor force belongs to a union.) Israel has no ability to flood U.S. markets and/or to injure the U.S. labor market. Israel's total exports to the U.S. are only about 0.5% of total imports into the U.S.

Wages in Israel are substantially higher than in countries commonly considered to be low-wage countries and are comparable to some European countries. According to a 1982 comparison made by the Union Bank of Switzerland, an electrical engineer in Tel Aviv earned slightly more than his counterparts in Oslo and Paris. U.S. Department of Labor estimates show that, in 1982, the average (manufacturing) hourly wage in Israel was $4.67, as compared to $1.97 in Mexico, $2.43 in Brazil, $1.57 in Taiwan, and $1.22 in Korea. This does not mean that Israel's wages are equivalent to those in the U.S. That would be impossible--U.S. wages are the highest in the world on average. As of 1982, the U.S. average was $11.79.

When comparing wages, however, one also has to consider the problem of inflation in Israel: When the value of the dollar in Israeli currency is higher, wages appear lower in dollar terms. In addition, U.S. productivity is far higher than Israel's--about two to three times as high, according to the Manufacturer's Association of Israel. The Israeli manufacturer must also pay far greater costs for each employee's income tax and social security, plus the cost of hiring extra labor to compensate for army reserve calls.

V. AGRICULTURE

1. QUESTION: What is Israel's trade balance in agriculture products?

ANSWER: Statements have been made that U.S. has a negative balance of trade in agriculture with Israel. These statements are incorrect. Although the American Farm Bureau Federation corrected this mistaken assertion for the record in the Senate Finance Committee hearing, AFBF's incorrect testimony is still being circulated.

According to USDA estimates, in 1983, the U.S. exported six times what it imported from Israel--$306 million worth of farm products were exported to Israel, while imports amounted to only $51 million worth. Moreover, because of a limited amount of water and land, Israel is severely limited in its ability to increase its agricultural production.

2. QUESTION: Does Israel subsidize its agricultural products?

ANSWER: In the agricultural sector, most countries subsidize production, including the U.S. The only case where the U.S. government imposed countervailing duties on an Israeli agricultural product was on cut roses. The impact in the U.S. of roses from Israel is minimal, however. In 1983, Israel's imports to the U.S. accounted for only 0.7% of total U.S. consumption and only 0.9% of U.S. production. Moreover, the International Trade Commission, in a 1980 Escape Clause decision, found that the U.S. rose industry was not seriously injured by imports from all sources, including Israel. Since that finding, Israel's imports of roses into the United States have declined.

According to a study conducted by Leon Garoyan of the University of California at Davis, Israel no longer subsidizes processed tomatoes.

The Israeli government has expressed its willingness to discuss reduction of subsidies as part of the FTA negotiations. The negotiations provide a framework in which these issues can be addressed.

3. QUESTION: Is Israel a major exporter of some of agriculture's most sensitive products: citrus, flowers, avocados, tomato products?

ANSWER: The amount of these so-called sensitive products shipped to the U.S. is relatively small.

It makes greater sense for Israel to ship perishable agricultural commodities to a nearby market like Europe, where shipping costs are less. Because of high shipping costs to the U.S. market, Israel is at a competitive disadvantage compared to countries such as Mexico, Brazil and the CBI countries, which are in close proximity to the U.S.

According to the Bank of Israel's Annual Report 1982, in 1980-1981, only 0.9 percent of Israel's agricultural exports went to the U.S., while almost 90 percent went to European markets.

According to the Israel's Citrus Marketing Board, last year, Israel shipped 38.5 million crates of citrus, with only 200,000 of those crates going to the U.S. and Canada; the Board predicts shipments will not increase much this year. Furthermore, 96% of Israel's grapefruit and orange juice exports in 1983 went to the European Community. Recently, Israel cut citrus cultivation by 10 percent.

Israel is not even exporting avocados due to stringent U.S. agriculture inspection standards. In addition, Israel does not even export some of its GSP-eligible agricultural products -- for example, fresh eggplant, garlic, and pearl onions last year.

The State of California produces 6 million tons of tomatoes for processing versus Israel's 300,000 metric tons. (1 metric ton = 2,204.6 pounds). Israel's production of tomato products has almost doubled in the last few years, reaching 300,000 metric tons. This is nearly full capacity, which is estimated to be around 350,000 metric tons per annum. Growth beyond that level is limited by high financing costs, lack of water, and competition with two other cash crops, cotton and ground nuts. The profitability of the latter two products is quite favorable.

The main reason for Israel's increase in exports to the U.S. in the last few years was a decline in U.S. production of tomato products due to bad weather conditions.

The International Trade Commission is investigating and will report to the President if there are any sectors, including agriculture, in the U.S. which could be adversely affected by the FTA.

4. QUESTION: Given Israel's small size, how would U.S. farmers benefit from an FTA?

ANSWER: Because the Israeli market is relatively small, it also means that on the export side it is not capable of flooding the U.S. market. On the U.S. export side, Israel is a good market for U.S. wheat, feedgrains and soybeans, and, according to Secretary of Agriculture Block, has the potential of being even a bigger market. With an FTA, it is likely Israel would buy more processed, consumer-ready food as well.

Israel, with limited resources and land, over half of which is desert and the whole of which is only about the size of Massachusetts, could never become a large-scale mass agricultural producer like the U.S. In agriculture, the U.S. definitely has the comparative advantage, and Israel cannot be economically self-sufficient in such basic commodities as grains, soybeans and oil, all of which the U.S. supplies in large amounts. With an FTA, Israel will likely buy more U.S. processed foods and agricultural machinery as well.

In 1983, the U.S. exported $13.8 million worth of tractors and $9.3 million in agriculture and dairy machinery to Israel. The FTA would also stimulate Israel's sharing with the U.S. its advanced agriculture and irrigation technology in joint venture opportunities, both in Israel and the U.S., as well as in the Third World.

A. AGRICULTURE: Tomatoes

1. QUESTION: Can Israel greatly increase its tomato exports to the U.S. under an FTA?

ANSWER: Israel's tomato acreage has fluctuated up and down in recent years, in reaction largely to the success of the U.S. crop: the year after a diminished crop in the U.S. Israel's acreage increased and the year after a large U.S. crop Israel's acreage decreased. This suggests that Israel complements U.S. production rather than crowding it out.

In 1984, it is expected that the U.S. will produce about 7 million metric tons of tomatoes for processing, whereas last year the U.S. produced only about 6 million--vs. Israel's total production of only 300,000 metric tons, or 5 percent of U.S. production. Obviously, Israel cannot export all of that amount--it must use some of it for domestic consumption as well as exporting to other countries such as Europe. It also cannot significantly increase that production because of limitations of land and water.

In 1983, Israeli processed tomatoes accounted for 22% of U.S. imports of processed tomatoes (compared to 25% supplied by Mexico, 24% by Italy and 20% by Spain).

In 1983, Israeli tomatoes accounted for only 7.4% of all U.S. tomato imports (including both processed and fresh tomatoes; processed imports being only 33.6% of total imports).

Many processing facilities are used for both citrus canning and tomato processing. But because these are seasonal and complementary, constraints on increasing citrus production means that tomato production cannot be greatly increased. Otherwise, the factory will stand idle for half of the year. And citrus production faces declining profitability.

In addition, Israel specializes in tomato products with which no big processors in the U.S. would bother. For example, Israel makes diced tomatoes to be used in very high quality sauces, or a special kind of pizza sauce--or a sauce with some extra ingredient such as additional oil. This would be too expensive for large U.S. companies.

Israel sells fresh agricultural produce in the U.S. only when there is a shortage in the U.S. Israel is so distant from the U.S. and the transportation costs are too high to make it economical. The U.S. is not a good alternative market to the EC, which is close and whose growing seasons are complementary with Israel's. California and Florida have the same growing seasons as Israel. To give an example, the cost of U.S.-grown tomatoes is 69¢ a lb. in the store. Israeli transportation costs are almost that much: about 50¢ per lb. if shipped by air. So Israeli growers would have to sell at a higher price just to survive, and they lack the economies of scale to sell at a low price.

If they ship the products, it would take three weeks which is too long for fresh produce. So even with a tariff cut, Israel cannot sell much fresh produce in the U.S.

B. AGRICULTURE: Citrus

1. QUESTION: Would Israel greatly increase its citrus exports to the U.S. with duty-free treatment?

ANSWER: Israel's overall citrus exports actually dropped 23.8% (60 million dollars) in 1982.

Bank of Israel Annual Report 1982

Decreases in citrus exports:

1979/80 - 5%
1980/81 - 4%
1981/82 - 6%

Israel's Statistical Abstract 1983

Exports of citrus worldwide in thousands of tons:

1978/79 - 964.6
1979/80 - 854.7
1980/81 - 821.0
1981/82 - 760.7

Using U.S. Department of Commerce statistics, imports of Israeli citrus juice as a proportion of U.S. consumption as recent as 1982 were virtually nil. Thus, even if imports from Israel were modestly or even significantly to increase with tariff reductions, this would still not make a dent in the U.S. market and, therefore, post no serious threat to domestic producers.

Costs in Israel for citrus cultivation and for citrus packing and transport increased more than 5-fold in 1978-1981.

Meanwhile, area of fruit-bearing age citrus under cultivation and export per acre steadily declined in 1978-1981.

*Jerusalem Post, March 5, 1984:

> "The number of citrus orchards that will have to be chopped down this year will double to 60,000 dunams (about 15,000 acres) or more from last year's 30,000 (dunams)."
>
> NOTE: Such developments cannot be reversed to increase production even if U.S. tariffs drop to "0".

*Benjamin Rubin paper "The Quiet Revolution in Israel's Economy":

> "(In 1983) 150,000 tons of citrus fruit will be destroyed as the high costs of land and water, combined with the competition of Spain, Greece, Morocco and Algeria, make extensive agriculture in Israel increasingly unprofitable."

*Washington Post, May 8, 1984 (AP):

> "Demand for orange juice is running ahead of projections, and it may be in short supply and cost more this fall, according to citrus industry analysts."
> "For the first time since 1977,...there may not be enough juice to meet worldwide demand."
> "Last year (Brazil) had a bad crop because of poor weather and tightening of farm credit by Brazilian government."

Most of Israel's citrus fruits are exported to Europe. Shipping to the U.S. is very expensive, the goods are perishable, and U.S. agricultural/health inspection rules are very strict and variable by state.

Europe, on the other hand, is very close, there are established marketing channels and inspection systems, and its climate is more complementary with respect to Israel's.

Last year, Israel shipped 38.5 million crates of citrus--only 200,000 of those crates went to the U.S. and Canada; Israel's Citrus Marketing Board also predicts shipments will not increase much this year.

Leon Garoyan of Univ. of California writes:

> "Since 1979, the acreage of citrus grown in Israel is declining because returns are low relative to other crops. Water costs are high and rising in Israel while production has expanded in other countries. The Israelis believe citrus acreage will continue to decline in Israel."

From an interview with Yael Arzi, Food Director, Israel Export Institute:

> Brazil and Mexico are the real threats to the world in citrus production, not Israel. In

just the last few years Mexico planted 25 million citrus trees.

Seventy to eighty percent of Israel's citrus exports go to Europe and will not be diverted to the U.S. For the European market, Israel's seasons complement Europe's and Israel profits in supplying citrus to Europe in Europe's off-season, whereas Israel and Florida and Southern California have the same growing seasons. Hence, Israel, even with tariff reductions, couldn't compete with U.S. producers on a large scale.

2. QUESTION: Is Israel reducing its citrus acreage, but replacing all its cut citrus with tomatoes for processing, thus further threatening the U.S. tomato-processing industry?

ANSWER: This is jumping to false conclusions. Israeli farmers are replacing their reduced citrus acreage with a variety of more profitable crops such as soft-peel fruit [peaches, apricots, etc.] and field crops, like corn.

3. QUESTION: Does Israel subsidize its citrus production?

ANSWER: Even the California League of Food Processors wrote in a letter of 2/84:

> "We have no information to indicate that Israel is subsidizing its production, processing or export of any fruit or vegetable product."

Bank of Israel Annual Report 1982

Israel's agricultural output subsidies--rate of subsidy as a percentage of producer prices for all crops:

1978/79 - 1%
1979/80 - 0%
1980/81 - 0%
1981/82 - 1%

In addition, American subsidization of agriculture through price supports, special lending schemes for growers, and a variety of other aid amounting to billions of dollars annually should be kept in mind.

4. QUESTION: Under an FTA, will there be increased Brazilian transshipment through Israel to the United States?

ANSWER: Before Brazil could transship through Israel, duty (14-16%) would first have to be paid on the product entering Israel. Combined with the added transportation costs, this would be a costly and unprofitable endeavor.

The amount of citrus production in Israel is a known commodity. Any sudden increase in Israeli citrus juice production or in exports could be easily detected.

The danger of market disruption from pass-through shipments from Brazil can be countered by establishing Rules of Origin such as those used for GSP or Caribbean Basin Initiative. For example, CBI requires substantial transformation of the product and not merely dilution or combining operations.

Moreover, it is in Israel's best interest not to let such transshipment of processed citrus products occur. Israel is equally concerned about transshipment under an FTA through the U.S. of a number of products, which are potentially far more damaging to Israel than any possible advantage gained by the citrus industry.

As indicated, Israel is moving away from citrus production and current reductions in citrus acreage mean permanent reductions in Israeli production. Citrus--and especially juice--production is not a high Israeli priority: other sectors are much more important for Israel.

5. QUESTION: Even though Israel presently sells the overwhelming majority of its citrus exports in Europe and almost none to the U.S., when a major competitor like Spain joins the EC in the near future, won't Israel lose its European markets and have to divert its exports to the U.S.?

ANSWER: The products that have expressed the greatest concern about this matter are processed--not fresh--citrus products, namely concentrated orange juice. The hypothesized displacement of Israel from their EC citrus juice market will not happen to any significant extent in the foreseeable future, as Spain does not have a developed processed citrus industry. Therefore, Israeli processed citrus production for export will continue to supply the European Community, utilizing Israel's well-established marketing and distrubution channels and will not pose any significant threat to the U.S. citrus industry.

C. AGRICULTURE: Olives

1. QUESTION: Will Isareli imports of olives under an FTA significantly harm the U.S. olive industry?

ANSWER: The case of imported Spanish bottled green olives is instructive in this regard. U.S. imports of such olives from Spain amounted to $70 million in 1983, or 95% of such imports and 60% of U.S. consumption of the product.

There has been a countervailing duty on Spanish green olives for the last decade. The ITC on May 8, 1984, ruled that the price of bottled green olives from Spain was not "materially" affecting domestic producers and ordered that the countervailing duty be ended.

So, if the huge volume of cheap olive imports from Spain do not "materially" harm domestic producers, even a modest increase in olive imports from Israel under an FTA would pose no such threat.

Israel has a 16% tariff for imported olives--higher than the U.S. tariff on olive imports. So an FTA would also mean concessions on the part of Israel's olive producers, who maintain much smaller operations and hence are even more vulnerable than U.S. producers.

Even with the added incentive of reduced tariff, Israel's ability to expand olive production is extremely limited due to constraints of land and water. Moreover, in order to increase its olive production, more trees would have to be planted and it would take considerable time before they would bear fruit.

2. QUESTION: Is an FTA a way of trying to get around Israel's having been rejected for duty reductions on olives under GSP?

ANSWER: Had Israel won duty-free treatment for olives under GSP, such tariff reductions would also have applied to the other developing countries who produce olives--perhaps posing a threat to domestic producers. But, under a U.S.-Israel FTA, only Israeli olives--which accounted for only 1.7% of U.S. consumption in 1982--would get duty-free treatment as part of the comprehensive deal--posing little threat to the domestic olive industry.

3. QUESTION: Will this be only the first of many tariff concessions on imported olives?

ANSWER: This fear is unfounded. Other large producers such as Morocco were probably the cause of rejecting olives for duty-free GSP treatment and hence are most unlikely to be the subject of tariff concessions. The very large producers such as Spain, Italy and Greece are or will all be members of the European Community (EC). Given the EC's highly protectionist trade policies especially regarding agricultural products--tariff reductions on imported olives from these producers are not possible at this time or in the foreseeable future and hence are not relevant to deliberations on U.S.-Israel free trade.

4. QUESTION: Are there about 35,000 bearing acres of olives waiting to be sold tariff-free in the U.S.?

ANSWER: This is a false and misleading statement. Of Israel's 37.2 thousand tons of olive production in 1981/82, 17.2 thousand tons (46+%) went directly for local consumption, while the remaining 20,000 tons went to local industry, of which some was then exported.

D. AGRICULTURE: Dehydrated Garlic and Onions

1. QUESTION: Could Israeli firms, with a duty-free advantage, become a large competitor in the U.S. market in these sectors?

ANSWER: Israel supplies only a minute portion of U.S. imports of dried garlic and onion: in 1981, only $13,000 worth of total imports which averaged $875,000 annually in recent years. Thus, even if Israel did increase its exports under an FTA, the effect would be imperceptible. This is especially the case because it is an expanding market--U.S. consumption of dried garlic and onion is increasing in recent years.

It should also be remembered that Israel imports U.S. dried vegetables--$337,000 worth in 1981. In dried garlic alone (which faces a 16% tariff in Israel) Israel imported $268,000 worth of U.S. garlic.

2. QUESTION: Does the U.S. consumer reap any benefits from lower-priced imports as they are used mainly for industrial use as seasonings for foods?

ANSWER: Food industries are consumers, too! If the food industries are able to buy lower priced and possibly better quality seasonings, then they are benefitting as consumers of the imported product. Over the long term, this would definitely lower their purchase costs, and these savings in turn would presumably be passed on to the final product consumer in the supermarket or restaurant or institution.

The present U.S. tariff rate of 35 percent is unjustifiably high and therefore eliminating it should ultimately affect the price levels for consumers.

E. AGRICULTURE: Roses

1. QUESTION: Would U.S. producers be greatly injured by allowing Israeli roses to come in duty-free?

ANSWER: Colombia accounts for the bulk of U.S. imports of fresh cut roses and other flowers. Israel only accounted for less than 2 percent of fresh cut roses imports in 1982, and less than half of one percent of domestic consumption.

. JEWELRY

1. QUESTION: How would an FTA affect the domestic jewelry industry?

ANSWER: Since 97 percent of Israeli jewelry already enters the U.S. duty-free, establishing an FTA would have little, if any adverse impact.

Italy exports to the U.S. about 5 times as much jewelry as Israel. In costume jewelry, which is the main line produced by U.S. manufacturers, Israel, which produces more sophisticated gold jewelry, is not even among the top 10 exporters to the U.S.

In its 1981 report on precious metal jewelry, the United States International Trade Commission found that Israel "is unlikely to increase its U.S. market share significantly" due to lesser quality of its products, marketing disadvantages and the fact that "U.S. producers have a technological advantage in the production of gold-filled jewelry."

The U.S. benefits from exports to Israel as well: for example, in 1983 the U.S. exported $40 million worth of diamonds and precious stones to Israel.

2. QUESTION: How developed is Israel's jewelry industry?

ANSWER: There are only 600 jewelers and silversmiths in Israel that employ a total of about 2,500 persons. Only a few employ more than 25 people. Jewelry production in Israel is based on high-wage, highly-skilled labor and new technology, and there is little danger of flooding the U.S. market with cheap jewelry imports. According to a survey made in 1980/81, the average wage of an employee in a jewelry exporting firm is somewhere between $750 to $1,500 per month. Thus, Israel is not a "cheap labor" country as far as its jewelry production is concerned, and is constrained by the shortage of skilled manpower from significantly expanding its exports.

Because Israeli jewelry exports are based on high wage, highly-skilled labor and on development of new technologies, there is little danger of flooding the U.S. market with cheap jewelry imports if tariffs were dropped. According to Israel's Industrial Development Plan, assuming there is an FTA and that Israel can broaden its product range, Israel's exports of jewelry will still only increase at an average annual rate of 7.2 percent in the next 10 years, the main constraint being the shortage of skilled manpower.

. TEXTILES AND APPAREL

1. QUESTION: Would the U.S. textile and apparel industries be adversely affected by a U.S.-Israel FTA?

ANSWER: It is important to remember that this is an FTA just with Israel, whose exports to the U.S. are so insignificant that they do not even come under any quota arrangement. Even if Israel were able to double its current textile and apparel exports to the U.S., this would still be only a fraction of the U.S.' $8 billion worth of clothing imports in 1981. Israel's share of U.S. imports of textile and apparel was 0.2% in 1981 and 0.02% of U.S. consumption (domestic production plus imports). Almost 90 percent of Israel's apparel exports are to Western Europe, where Israel has developed its markets over the last ten years.

Most of the U.S. trade deficit in apparel comes from increasing imports from the "Big Four" suppliers: Hong Kong, Taiwan, Korea and China, countries with cheap labor costs. Israel exports only higher fashion, higher priced specialty apparel, such as swimsuits, which are not competing with U.S. mass-produced items, and where consumer demand is quite limited.

2. QUESTION: What is our balance of trade with Israel in textiles and apparel?

ANSWER: In 1982, the U.S. had a $15.8 million surplus with Israel in textiles and apparel trade, exporting $33.2 million worth and importing $17.4 million. Because textiles are a major U.S. export item to Israel, the industry could particularly benefit from the elimination of Israeli tariffs which currently are about 15-16 percent on many of the man-made fibers.

The more that Israel exports in apparel, the more U.S. textiles and yarns Israel will have to buy. Also, as Israel continues to modernize its clothes industry, it must import almost all of the machines and computers used in modernization. With an FTA, Israel will buy many of the machines from the U.S.; otherwise they will likely come from Europe.

3. QUESTION: Can countries subject to U.S. import quotas use the FTA to obtain access to the U.S. market illegally?

ANSWER: The U.S. and Israel will negotiate the appropriate safeguards and Rules of Origin to ensure that quotas are not circumvented.

I. LEATHER GOODS AND FOOTWEAR

1. QUESTION: How would the domestic footwear industry be affected by an FTA?

ANSWER: Most footwear made in Israel is sold in the local market. Worldwide exports, including footwear parts, totalled less than $5 million in 1982, mostly to Europe. Israel's exports of footwear to the U.S. in 1982 totalled 0.15% of total U.S. imports.

According to Israel's Industrial Development Plan for 1982-1995, exports will grow at an average rate of 3 percent per year and will continue to be directed mainly to Europe.

2. QUESTION: What do U.S. exporters have to gain from the Israeli market?

ANSWER: Israel imports almost all of its hide and skin requirements. Imports of hides, skins and leather amounted to $18.2 million in 1982, of which 25 percent was imported from the U.S.

Also, in 1983 the U.S. exported $6.2 million worth of textile and leather-working machinery and parts.

While exporting only $5 million worth of footwear, Israel imported $20 million worth of shoes in 1982. Most U.S. footwear exports face a 16 percent tariff in Israel, while the EC's tariff is being phased out.

3. QUESTION: Isn't there already a precedent for excluding footwear and leather products from the CBI and footwear from GSP?

ANSWER: The CBI and GSP are only one-way tariff cutting arrangements, not offering reciprocal benefits for U.S. exporters. An FTA will be reciprocal, giving U.S. exporters significant benefits.

4. QUESTION: Will an FTA with Israel hurt the rubber footwear industry in U.S.?

ANSWER: Korea and Taiwan together supplied 72 percent of the U.S. imported rubber footwear during the last four years.

Even without tariffs, there is no way that Israel can compete with those low-wage countries, which have the cheap labor to mass produce these kinds of items. According to U.S. Labor Department statistics, in 1981, in the leather products and footwear industries (including rubber and plastic footwear), Israeli wages were three times higher than Korean, and almost twice as high as Taiwan's.

Israel also cannot compete with the cheap labor in the People's Republic of China, which is the other major new source of U.S. rubber footwear imports.

Israel would also have no special advantage over U.S. producers in the production of the more expensive, high-quality rubber footwear.

BROMINE

1. QUESTION: How can the U.S. bromine industry compete against Israel's industry?

ANSWER: Currently, three U.S. companies account for almost all U.S. production of bromine and brominated products. Israeli production, which helps account for what little competition there is in the U.S., still accounts for only about 2-3 percent of U.S. consumption. The Israeli producer faces high costs of production and transportation, and it is these cost factors, rather than import tariffs, which inhibit the ability of Israel to increase its small market share in the U.S.

Brominated compounds play an increasing role in producing flame retardants, in water sanitation, and in pharmaceutical products--all areas important to American consumers, who could benefit from increased competition in the industry.

2. QUESTION: Does the domestic bromine industry need protection from increased imports?

ANSWER: Great Lakes Chemical Corp., the world's leading producer of bromine and brominated products located in the U.S., has enjoyed greater and greater sales revenues every year since 1975, and prospects look good for the coming years as well.

Although U.S. firms have been affected by the EDB ban, they are finding alternate uses for bromine which are highly profitable. For example, another major producer of bromine related products, Ethyl Corp., has reported the expansion of its production capacity at Magnolia, Arkansas, for flame retardant production. Further expansion is planned in 1984; also, Ethyl plans to open new facilities for bromine based completion fluids.

Chairman GIBBONS. Next we have Mr. Greenberg.

STATEMENT OF LEE W. GREENBERG, DIRECTOR OF TRADE POLICY, NATIONAL OFFICE, AND EXECUTIVE VICE PRESIDENT, WESTERN REGION, AMERICAN-ISRAEL CHAMBER OF COMMERCE AND INDUSTRY, INC., ACCOMPANIED BY SIDNEY N. WEISS, TRADE COUNSEL

Mr. GREENBERG. I am Lee Greenberg, executive vice president of the American-Israel Chamber of Commerce, Western Region; director of trade policy for the national office.

Chairman GIBBONS. Mr. Weiss is to your right.

Mr. GREENBERG. Right. Mr. Weiss is special counsel on trade matters.

Chairman GIBBONS. Fine. You may proceed.

Mr. GREENBERG. I have a rather long written testimony. I, too, ask that it be introduced into the record.

Chairman GIBBONS. Without objection, it will be placed where you designate.

Mr. GREENBERG. Thank you, Mr. Chairman.

For purposes of time, I will go ahead and summarize the major points of my testimony.

The American-Israel Chamber of Commerce is a U.S. trade association composed of member companies interested in bi-national trade between the United States and Israel. The chamber supports a free trade area between the United States and Israel.

Such an agreement would benefit both countries and at the same time recognize the principles of free trade as part of the overriding democratic values that are at the very foundation of both countries.

As far as benefits to the United States, Israel represents an $8 billion import market for goods and an additional $6 billion import market for services which are also contemplated to be part of the proposed free trade area.

A free trade area would give the United States general access to these markets, the $8 and $6 billion, without distortions because of tariff barriers.

In addition, a free trade area will allow U.S. products to compete in this market with European products which are the subject of a free trade area currently in effect between Israel and Europe and which will be totally phased in as to European imports into Israel by 1989.

Traditionally, Israelis prefer American products, and with competitiveness of American products in the Israeli market, we anticipate a great rise of American sales in the Israeli market.

In addition, access by American products into the European market itself will be less costly and be easier to obtain.

Currently, even under the system as it now exists, the United States can use Israel to enter its products into the European Common Market. However, with a free trade area through the use of industrial cooperation, many of the administrative burdens that occur in attempting to do that will be removed and raw materials used to manufacture products for export from Israel to the European economic community will enter Israel without duties—raw materials from the United States, that is.

By entering into a free trade area, we anticipate that Israel will have additional funds to be used for imports from the United States, and I again mention they show a preference for U.S. products; and also to pay back its national debt, much of which is owed to the United States.

Very importantly, this agreement is reciprocal. U.S. trade agreements with many countries of the world, as this committee of course is aware of, have been unilateral by and large. This agreement, unlike the GSP, is reciprocal and offers to American industry a much more equitable way of having a bilateral relationship between one country and another.

It is a continuation and an enhancement of the U.S. commitment to Israel but at the same time one that is equitable and fair to American industry.

At the same time, a free trade area may very well have the effect of stimulating freer trade in our multilateral arrangements under GATT. If the bilateral agreement with Israel is to be successful, members of the GATT may be inclined, through the multilateral process, to become freer with the trade barriers that now exist multilaterally.

Most importantly, a free trade area will create an atmosphere between Israel and the United States for joint ventures. Currently over 105 U.S. companies, many quite large, have subsidies or joint ventures with Israel and they use these to gain access to the EEC. With the free trade area, the atmosphere for these ventures between Israeli and American companies will become more conducive and we can anticipate that the United States will therefore capture a larger share of the European market.

In addition, New World markets that Israel may trade with now and the United States does not trade with may also open up to U.S. industry.

Any agreement must be reciprocal and benefit both sides.

I would like to touch on benefits to Israel. It is a small country which must export in that its domestic market is too small to support its industry. As we know, it has a high national debt and has a lack of trading partners in that its immediate neighbors refuse to trade with her and many countries throughout the world likewise refuse to trade with her, as Mr. Dine has mentioned.

In addition, it is a non-labor-intensive country and, as a matter of fact, has a shortage of labor and labor is quite expensive compared to most countries. A free trade area would provide certainty, whereas the current GSP offers Israel no certainty for its manufacturers to make rational decisions for future trends.

In addition, as I mentioned, the free trade area would stimulate investment into Israel to use the foreign market. This joint cooperation between Israeli and United States industry could be very beneficial to the Israeli economy. For Israel and the United States, New World markets may open up that currently Israel is unable to trade with but in joint ventures with American companies, with the products exported by American companies, these markets currently unavailable to Israel may become open. And with that, Israel will be in a better position to service and retire its debt, much of which is owed to the United States.

In addition, both countries have been very involved with joint development of technology and major efforts in R&D. This type of an agreement can facilitate such ventures by both countries.

Both have shown a strong desire and inclination to protect intellectual property rights and therefore there would be no threat to either country's intellectual property rights were an agreement like this to become implemented.

The cooperation would allow the strengths of U.S. companies to be matched with the strengths of the companies in Israel so that technology could be shared and the marketing and financial ability of American companies could be used to the benefit of companies in the economy of both countries.

Both countries also have an active independent labor movement. This proposal would not take away jobs from both countries but rather would increase jobs by increasing the exports of both countries.

Concerns that jobs would be eliminated are inaccurate when we examine the fact that according to different statistics, for every $1 billion of exports, between 25,000 and 50,000 jobs would be created.

We certainly anticipate that both the United States and Israel would be able to increase their exports by virtue of this agreement.

In addition, the concern that Israeli products could flood the U.S. market is an unwarranted concern. As I mentioned, Israel is a nonlabor-intensive country. As a matter of fact, it has a labor shortage. As a result, it cannot produce products for mass consumption and would be unable to flood the U.S. market, and therefore hurt U.S. employment figures.

Both countries believe in fair treatment of their employment and this agreement would work hand in hand with that policy.

Both countries also have mutual investment policies which are very liberal, and both encourage and allow investments by one country into the other.

I mentioned that over 105 U.S. companies are currently in Israel and many Israeli companies have subsidiaries and offices in the United States. The reason for this is companies from both countries see increased export potential; both countries allow repatriation of profits and foreign ownership of equity in companies.

Also, the removal of multilateral trade barriers could serve as a major plus for both were this agreement to be implemented.

It is our position that this agreement would be totally consistent with the GATT and poses no problems, and other issues of concern in implementing an agreement such as a free trade area, subsidies, and other matters can be discussed and are the subject of current negotiations.

Any agreement such as this free trade area would pose minimal injury, if any, to U.S. industry.

Currently, as has been mentioned earlier this morning, over 90 percent of Israel's products enter the United States duty free. Even with that staggering figure of 90 percent, right now the balance of trade between the United States and Israel is heavily a surplus in favor of the United States. There is no reason to suspect that were another additional 10 percent of Israel's products to enter the

United States duty free, that this balance would reverse. In fact, it might become more heavily in favor of the United States.

It is very expensive for Israel to increase its industrial size. Industrial growth in Israel is a slow process because of the shortage of labor, the expensive cost of labor. In addition, Israel bears high costs in terms of financing construction, importation of energy and raw materials, taxes, and external problems which we are all aware of. As a result, Israel's industry would be hard-pressed to show major industrial growth for import into the U.S. market.

As far as specific industrial limitations, most of Israel's products have traditionally gone to the EEC. It is there that Israel developed an intricate marketing system, and it is there that we can anticipate that, even with a free trade area with the United States, most Israeli products will continue to go, because additional transportation costs would be incurred were they to all of a sudden use the United States as a primary market.

For Israel, the free trade area simply gives the basis of a rational decisionmaking policy in that the United States would be a continued trading partner for export. But it does not mean the emphasis on Israeli exports will shift from Europe—the likely importer of Israeli products—to the United States.

To put this entire proposal into perspective, in terms of what Israel can do in the American market, I would like to mention just a few items. I come from California, and the county of Orange in the State of California has a higher gross national product than the country of Israel. That is a staggering statistic, but it certainly lends credibility to the fact that when all things are considered it is unlikely that Israel can make tremendous inroads into the U.S. market.

A further statistic, which has great interest, is that IBM sales are in excess of the entire GNP of Israel. Moreover, in 1981, Exxon was the largest U.S. corporation on the Fortune 500 list with $108 billion of sales. That same year, the largest company in Israel, IAI, Israel Aircraft Industries, grossed $122 million, which would have placed it about 350th on the list of the Fortune 500 in the United States—again, a comparison which shows that Israel's largest company would be unable to compete in terms of taking a large share of the U.S. mass market.

Israel, we must remember, is a country of only 4 million people. It has tremendous external problems. And with all of these things that I mentioned, it is flattering from Israel's standpoint to see the concern in this country from industrialists that Israel could inundate this market. But it simply cannot be true.

I have included in my testimony, which has been introduced into the record, statements from many industrialists, including such companies as Intel and Data Products, who are active or would like to be more active in Israel right now. There are many others. And I might mention that many other statements may have been included. However, as this committee may be aware, currently in Israel the Jerusalem Economic Conference is in session, and "Isratech", where most Israeli high tech companies are meeting with global counterparts, is also in session. Most American industrialists who deal with them are in Israel and are unable to introduce statements, but I assume they will in the near future.

In conclusion, Mr. Chairman and members of the committee, Israel shares with the United States a heritage of democratic traditions and Judeo-Christian values, and is a member of the family of free nations. In light of this, the advantages of a free trade area are numerous. In addition to deepening a vitally important political, strategic and commercial relationship, a free trade area will tend to create new economic opportunities and new jobs in both the United States and Israel without damaging the interests of the United States.

Through industrial cooperation, both countries will be able to bring new R&D and new technologies to the world marketplaces. Accordingly, we request this distinguished committee to act favorably in its recommendations on legislation and on implementation of this proposal.

Thank you.

[The prepared statement follows:]

STATEMENT OF LEE W. GREENBERG, EXECUTIVE VICE PRESIDENT, WESTERN REGION, AMERICAN-ISRAEL CHAMBER OF COMMERCE AND INDUSTRY, INC.

SUMMARY OF TESTIMONY

The American-Israel Chamber of Commerce is a United States Trade Association composed of member companies interested in bi-national trade between the United States and Israel. The chamber supports a free trade area between the United States and Israel. Such an agreement would benefit both countries and at the same time recognize the principles of free trade as part of the overriding democratic values that are at the very foundation of both countries.

Specific advantages and considerations for the United States are as follows:

United States products will be sold in Israel on the basis of quality and price, without distortions due to tariff barriers. United States products will, therefore, gain equal treatment with products of the European Economic Community in the Israeli market. Moreover, American products shipped to Israel where they are physically transformed with an added value will be granted duty free entry into the European Economic Community.

Nothwithstanding these gains, the threat to United States industry would be minimal. Israel is unlikely to flood the United States market because, unlike many other countries, it is not a cheap labor enclave.

United States companies can benefit from Israeli technological advances in their efforts to hold and expand their market share vis-a-vis European competitors.

A Free Trade Area would serve as a more equitable bi-national commercial relationship than the current Generalized System of Preferences (GSP) relationship which now exists between the United States and many countries including Israel. While GSP provides unilateral benefits to other countries, a Free Trade Area would provide mutual benefits to both the United States and Israel.

Specific advantages and considerations for Israel are as follows:

The Free Trade Area is a step beyond the GSP. Limitations and uncertainties built into the GSP will be lifted. This will enable Israeli manufacturers to make rational decisions and build a long-term market in the United States. Israel will therefore be able to export more products to the United States.

United States companies will be inclined to invest in Israel by opening subsidiaries and/or setting up joint ventures with Israeli companies so that, through product transformation with added value, United States companies can receive duty-free access to the European Economic Community (EEC) and be more competitive with European products in the European marketplace.

By increasing her exports, Israel will generate additional funds which may be used to service and retire her national debt, much of which is owed to the United States.

Mutual advantages and considerations for the United States and Israel are as follows:

Common aspects of the United States and Israeli economies, such as technological orientation, an interest in defending intellectual property, and a developed labor movement with wages and working conditions consistent with human rights, make the United States and Israel natural partners in a Free Trade Area.

Both the United States and the Israeli economies create an environment conducive to international investment without major restrictions. A Free Trade Area will make it more feasible for United States and Israeli companies to take advantage of these liberal international investment policies.

INTRODUCTION

Thank you for the opportunity to testify before this distinguished Committee on the proposed Free Trade Area between the United States and Israel.

I am Lee W. Greenberg, Esq., Executive Vice-President of the American-Israel Chamber of Commerce & Industry, Western Region, and Director of Trade Policy for the American-Israel Chamber of Commerce & Industry, Inc./National Offices. I am a practicing attorney and a member of the Bar of the State of California. I have also served as a consultant to several United States-Israel business ventures.

Appearing with me is Sidney N. Weiss, Esq., Special Counsel to the Chamber on Free Trade Area matters.

The American-Israel Chamber of Commerce & Industry is a non-political and non-sectarian trade association whose membership includes hundreds of United States and Israeli corporations. Chamber members represent a broad range of bi-national trade between the United States and Israel, including import, export and investment. The Chamber is a recipient of the "E" Award of the President of the United States "For an outstanding contribution to the Export Expansion Program of the United States of America".

While we as a trade association are primarily interested in the economic and commercial benefits which will flow from a Free Trade Area, we are acutely aware that close bi-lateral economic and commercial relations between the United States and Israel may have a major beneficial impact on the normalization of relationships among countries in the Middle East and, therefore, enhance the opportunities for peace in the region.

The long range opportunities for peace in the Middle East are certainly among the primary benefits of a Free Trade Area and must not be overlooked. However, the importance of the immediate goals of expanding bi-lateral trade between the United States and Israel should not be underestimated.

In this regard, we, as a trade association, have polled a number of our member firms as well as other firms doing business with Israel on the matter of establishing a Free Trade Area between the United States and Israel. We found that the American business community doing business with Israel supports the establishment of a Free Trade Area. Several representatives of the companies polled asked us to convey their positions to this committee, which we will do later in this testimony.

In short, a Free Trade Area proposal should receive prompt and affirmative action because of the support it has received from the American Business Community. Moreover, the direct and indirect commercial benefits which will flow from a Free Trade Area along with the enhanced opportunities it creates for peace in the Middle East are additional reasons that this proposal should be recommended.

I. BENEFITS OF A FREE TRADE AREA TO THE UNITED STATES AND ISRAEL

Both countries would receive substantial direct and indirect benefits from a Free Trade Area.

A. Benefits to the United States

The benefits the United States would receive from the implementation of a Free Trade Area include the following:

First, Israel represents an import market of approximately eight billion dollars worth of goods and 6 billion dollars worth of services, excluding defense imports, annually. With a Free Trade Area, this market will be open to United States exports on a basis which is completely free from tariff barriers. Currently, products from the United States and other countries are subject to customs duties which, especially in the field of consumer goods, are quite high. Products exported to Israel from the European Economic Community (EEC) already receive concessions in customs duties. By 1989, Israel will eliminate all tariffs on products originating in the EEC and exported to Israel. Although the United States is presently at a disadvantage when competing for the Israeli market against European products with lower tariffs, this disadvantage will be far more accented in 1989 when no tariffs at all are paid on European products. This potential disadvantage can, of course, be eradicated if the United States shares a Free Trade Area with Israel as does the EEC. With such a Free Trade Area the United States will unquestionably increase its market share in Israel.

It is our expectation that the elimination of Israeli customs duties will open the Israeli market, for consumer and other goods, to American products on the basis of quality and price without distortions due to tariff barriers. In addition, through negotiation issues of non-tariff barriers will be resolved to the mutual benefit of the United States and Israel. Inasmuch as Israeli consumers traditionally prefer products from the United States, with competitive pricing these products are likely to garner a large share of the Israeli market.

Second, a Free Trade Area would serve as a more equitable bi-national commercial relationship between the United States and Israel than the current Generalized System of Preferences (GSP). Under the current system, approximately 90% of Israeli products enter the United States duty free (approximately 35% under the GSP and 55% under Most Favored Nations Status, MFN). However, under the current system, although Israel has made a great number of trade concessions to the United States, many products of U.S. manufacturers do not enter Israel duty free. A Free Trade Area would provide reciprocal benefits to the United States and Israel.

The United States has always had a favorable balance of trade with Israel. In 1983, the balance of merchandise trade favored the United States by over 400 million dollars. A Free Trade Area would enlarge the potential for the United States to increase its already substantial exports to Israel. On the other hand, even with GSP benefits of over 90% of Israel's exports to the United States, these exports still account for only one-half of one percent (.5%) of total United States imports.

Over the years the United States has been committed to helping Israel's economy. A Free Trade Area would continue to enhance this commitment and at the same time, as to Israel, remove the inequities experienced by United States manufacturers under the current GSP system of unilateral benefits given by the United States to many foreign countries, including Israel.

Third, with an expanded commercial relationship between the two countries the atmosphere is conducive for United States' and Israeli companies to work together utilizing each other's strengths. Therefore, the potential for a unique set of relationships, which will combine the strength of companies in each country, exists. As a non-labor intensive country, Israel has been successful in developing many novel and unique technologies and manufacturing processes. Companies from the United States can add to this their marketing and financial capability and expertise as well as their own technologies. This combination creates a formula for profitable bi-national industrial cooperation. The products which are to be the fruits of these joint ventures can then be sold without duties in Israel, Europe and the United States. Morevover, by creating new and expanded markets the working relationship between the U.S. and Israeli companies also creates additional labor opportunities in both countries.

Fourth, a Free Trade Area will give the United States easier terms of entry into the European Common Market. Fortuitously, both the European Economic Community and the United States will have Free Trade Areas with Israel.

Therefore, United States products shipped to Israel and physically transformed there with added value will be granted duty-free entry into the European Economic Community by virtue of the Israel-EEC Free Trade Area.

Of course, in certain respects, the same can be done even today if administrative steps involving drawbacks on customs duties paid in Israel for those raw materials from which exported goods are being manufactured are taken. The Free Trade Area, however, will help eliminate burdensome paperwork and difficult-to-retrace pricing distortions.

Fifth, through the establishment of a Free Trade Area, Israel will be in a position to generate additional funds from joint venture activities with United States companies and from increased exports to the United States. As mentioned in the preceding summary of testimony, Israelis traditionally prefer equipment and products made in the United States. Therefore, Israel will be able to utilize the additional funds generated as the result of a Free Trade Area for purchases of products imported from the United States. In addition, the benefits Israel's economy would receive from the increased funds generated may be used for debt service and debt retirement payments to the United States. In the long run, through a Free Trade Area the United States and Israel can establish a unique commercial bond for continued bi-lateral relationships. Additionally, a Free Trade Area can benefit Israel in its attempt to become economically independent of foreign loans and grants from the United States and elsewhere.

Sixth, the success of a Free Trade Area between the United States and Israel would underscore the fundamental principles of freedom which are at the very root of the two democracies. Moreover, the successful sale of products by both countries on a Free Trade basis would serve as conclusive proof to other countries that it is feasible to eliminate barriers and disincentives in the importation of foreign products.

B. Benefits to Israel

Israeli exports are unjustly disadvantaged in the marketplace because of factors not related to the quality and efficiency of its products. These disadvantages would be significantly reduced by a Free Trade Area. Israel currently has one of the highest per capita debts of any country. This is primarily the result of necessary expenditures on defense. To service and retire its debt, Israel must export a great part of its production. Because of the political situation in the Middle East, Israel's trade with its neighbors is negligible. Moreover, many other countries in the world do not recognize Israel as a trading partner.

Thus, with its extraordinary military burden, Israel has the added burden of transporting its exports and imports to and from limited and specified markets thousands of miles from its borders.

A large percentage of the exports from the world's developing nations rely on low cost labor. Israel is an exception to this rule. The quality of the Israeli worker coupled with the fact that Israel is a deeply rooted democracy with a highly organized labor movement results in Israeli products being known and identified for their technological advancements, sophistication and style rather than low price. Consequently, Israeli products are often uncompetitive in countries imposing high or restrictive tariffs.

In recognition of these factors and in accordance with its own interest, the European Economic Community has established a Free Trade Area with Israel. Israel receives significant advantages from its Free Trade Area with the EEC. Likewise, the proposed Free Trade Area between the United States and Israel would have a number of advantages to Israel.

First, Israeli manufacturers would have certainty in regard to the status of their future exports to the United States. Unlike the present GSP system where a country, product, or "country/product pair" may be "graduated", that is, eliminated from GSP benefits if certain limits are reached, a Free Trade Agreement removes this uncertainty. In 1983, for example, if a country accounted for more than 57.9 million dollars of the imports of an article to the United States or over 50% of the value of total imports of that article, then its GSP benefits for that product would be eliminated. Under the Free Trade Area proposal there would be no threat of elimination once products which qualify under the proposed agreement were identified. This would enable Israeli manufacturers to make rational decisions regarding production and capacity.

Second, access to the United States market would be on a free, open and reciprocal basis unencumbered by extraneous constraints. As such, a Free Trade Area would be a concrete expression of the benefits to be realized from free trade. Each country's products will compete freely in the market-place of the other. As a result, considerations such as per-capita GNP and other criteria not directly related to the subject would not be determinants in the ability of one country's products to be successfully sold in the market of the other. Efficiency, quality and price would be the only determinants of the competitive advantage for the product of one country in the market of the other country.

Third, a Free Trade Agreement may well be an incentive for U.S. companies to invest in Israel. There are over 105 U.S. companies currently operating in Israel. With a Free Trade Area between the United States and Israel, Israel will be in a unique position having such an agreement with the two largest markets in the world, the United States and the European Economic Community. United States companies investing in Israel can join their technology with that of Israeli companies to produce products exportable duty free in the world's two largest markets.

Fourth, a Free Trade Area with the United States will open up many new world markets for Israel. As mentioned, many countries do not recognize Israel as a trading partner. However, most of these countries do engage in bi-lateral trade with the United States. Israel has many products and technologies which can be utilized by countries which currently will not import its products. Through joint ventures with United States companies where technologies are shared, these markets will become open to Israel. Through this type of industrial cooperation both the United States and Israel can expand their export markets.

Fifth, as a result of benefits to be realized from a Free Trade Area, Israel will be in a better position to service and retire its extraordinary national debt, much of which is owed to the United States. Isreal would also be able to improve its substantial balance of trade deficit. Morever, with the additional funds generated as a result of the proposed Free Trade Area, Israel will be able to import more products, technologies and know-how. Many of Israel's imports will be from the United States. These imports will continue to contribute in a significant way toward building a vibrant and modern democratic nation.

C. Implementation of a free trade area benefits the common commercial interests of the United States and Israel and does not pose a threat of injury to United States industry

In addition to each country's unique benefits to be derived from a Free Trade Area, the United States and Israel have common economic and commercial interests which would benefit from the implementation of a Free Trade Area.

First, both the United States and Israel are heavy investors in research and development and exporters of know-how. Therefore, a Free Trade Area will not result in the drain of one country's intellectual property to the other country's advantage. A more likely scenario is that both countries will cooperate in the joint development of new technologies. Joint development of new technologies between U.S. companies and Israeli companies has already begun and has been facilitated by programs such as the Bi-national Research and Development Foundation (BIRD-F). This foundation was created jointly by the governments of the United States and Israel with each country providing $30 million for joint research and development purposes. Programs like this, along with the joint and mutual benefit to be derived from them, can only be increased and enhanced by the spirit of cooperation created by a Free Trade Area.

Moreover, the United States and Israel have a commonality of interest in protecting intellectual property. Both countries are alert to the fact that exports of technological products to third world country markets contain billions of dollars worth of intellectual property. Both countries are, therefore, acutely aware that these rights must be protected against theft, counterfeiting and infringement. The enforcement of intellectual property rights are vigorous in both countries because the protection of these rights ensures the future growth of industry in both countries.

Second, mutual benefits to both countries derive from the fact that both countries have active and independent labor movements linked to and nurtured by democratic institutions. American workers are justifiably wary of efforts to liberalize trade when it is at the expense of American jobs and American wages earned through a vibrant and democratic labor movement. In the case of Israel, its labor movement is among the most active and progressive in the world. The wages, benefits and social protection it has achieved can be claimed by very few nations in the world. Moreover, Israel is not a cheap labor enclave and is, therefore, unlikely to flood the United States market with inexpensive products, as do many labor intensive countries. In addition, Israel, as a non-labor intensive country, does not have the capacity to service high volume markets, however, it can service specialized markets with specialized technologies and know-how. The United States, on the other hand, has the capacity to service high volume-bulk product markets. By merging the abilities that each country's industry possesses, joint ventures between companies in the two countries, brought about by the spirit of cooperation created in a Free Trade Area, will not diminish American or Israeli jobs, rather, through the expansion of existing markets and the creation of new markets, a Free Trade Area will probably result in added jobs in both countries.

Therefore, the establishment of a Free Trade Area will benefit workers in both countries.

Third, both the United States and Israel offer an economic environment conductive to international investment. Restrictions on foreign investment often form unacceptable non-tariff barriers to international trade. This has been a particularly vexing problem with United States trade and economic relations with the Pacific Rim countries and Latin America. In contrast, because Israel offers a liberal economic policy toward foreign investment, United States concerns in this regard are unnecessary. In fact, Israel is one of only a very few countries in the developing world to offer and encourage foreign investment in its growing economy.

As mentioned above, there are over 105 United States companies operating in Israel. These companies, which include several major United States corporations, have chosen Israel because, in addition to the tremendous domestic and export profit potential it offers them, Israel has no restrictions on repatriation of profits, foreign ownership of business entities, or joint venture investments with Israeli companies.

Because of the liberal economic policies that both the United States and Israel have toward foreign investments, a Free Trade Area serves as an appropriate vehicle to encourage investments by United States companies in Israel, as well as by Israeli companies in the United States.

Fourth, a United States-Israel Free Trade Area would be continuing testimony to the concept that two countries can practice open and free trade among themselves while at the same time providing to their workers decent wages and working conditions and the most advanced social welfare and medical systems and facilities.

Finally, a Free Trade Area between the United States and Israel may be the first incentive to the creation of a Middle East Common Market. International trade is perhaps the most fruitful method available for achieving political gains and, consequently, for achieving peace and prosperity. Because a United States-Israel Free Trade Agreement may lead to economic and political relationships in the Middle East and elsewhere in the world, it is to the mutual benefit of both countries. These two great democracies which have devoted so much to the pursuit of peace are most likely partners in the creation of another vehicle to facilitate economic and political relationships between countries.

II. THE VIEWS EXPRESSED IN THIS TESTIMONY REPRESENT THE VIEWS OF THE AMERICAN-ISRAEL BUSINESS COMMUNITY

As I stated above, the American-Israel Chamber of Commerce and Industry, Inc. represents a broad sector of the American-Israel business community.

We polled a number of United States corporations, both members and non-members of the Chamber, regarding a Free Trade Area. All support the implementation of a Free Trade Area.

For example, Dr. Robert N. Noyce, Vice-Chairman of the Board, Intel Corporation, Santa Clara, California states,

"There is a strong mutual interest amongst the manufacturers of American goods and the manufacturers of Israeli goods. We know this well in light of our experiences as a United States manufacturer and exporter to Israel as well as an investor in an Israeli production plant.

"We are currently building a facility in Israel, a fabrication plant for the processing of silicon waffers into integrated circuits. Raw materials will be coming from the United States and the end product will be marketed in the United States and Europe. Removal of customs duties, due to a United States-Israel Free Trade Area covering these products, in conjunction with the existing Free Trade Area between Israel and the EEC will help us to increase our sales here, in Israel and in Europe.

"Many of the products manufactured in Israel are made from raw materials, parts and components imported from the United States. Increased imports into the United States, of Israeli products, through the elimination of all duties, would create additional business for United States manufacturers and exporters.

"Moreover, through this type of industrial cooperation, we as an American company are able to exchange technologies, know-how and processes with our subsidiary in Israel which is staffed by Israeli scientists, technicians and skilled laborers. This serves as a mutual benefit to industry in both the United States and Israel."

Mr. Joseph Pinto, Vice President of White Westinghouse, Inc. 930 Fort Duquesne Boulevard, Pittsburgh, PA 15222, states,

"We are for the establishment of a Free Trade area between the United States and Israel. Our firm exports appliances to Israel. Any lowering of the customs duties covering the products we sell can only help us to increase our sales to Israel. It lowers the cost of our products to the Israeli consumer, thereby broadening our customer base."

Mr. Lester Deutsch, Executive Vice President, Deutsch Co., 7001 West Imperial Highway, Los Angeles, CA 90045. Deutsch Company is a high technology aerospace component manufacturer with facilities in New York, North Carolina, Southern California and Israel.

"Israel possesses high technology, scientific information and has made significant advances in the areas of medicine, agriculture and aeronautics. A Free Trade Area would promote the exchange of such technology and be of great benefit to both countries. I am strongly in favor of a Free Trade Area between the United States and Israel."

Mr. Larry Maltin, Vice President of Kulicke & Soffa Industries, Inc., 507 Prudential Road, Horsham, PA 19044, states,

"There is a strong mutual interest between the suppliers of American goods to Israel and the Israeli suppliers to the United States market. We know this well in light of our experience as investors in Israel's industry in the electronics field, an activity which is accompanied by the transfer of goods between the two countries.

"A Free Trade Area will prevent the creation of an economic disadvantage for exporters of American goods to Israel, a disadvantage which will take place when United States' products become non-competitive on the Israeli market versus European products enjoying zero duty under the evolving agreement between Israel and the European Economic Community.

"We have noticed as well a strong interest in Israel to further develop trade relations with the United States, which at least partially would help offset a long-term reliance of Israel on the United States for military and economic support.

"As long as there is a United States national interest in maintaining its close relations with Israel, it is apparent to our company that we must strive to create optimum trading relations between the two countries. A Free Trade Area corresponds to this need."

Mr. Ernest G. Wohlwill, Vice President of ISC Transport, Ltd. International Trade Forwarders, 71-08 51st Avenue, Woodside, N.Y. 11377, states,

"As international freight forwarders who specialize in trade with Israel, we believe that such legislation would be mutually profitable to both the United States and Israel.

"At present, United States exporters are competing at a distinct disadvantage, due not only to the strength of the United States currency, but also to the fact that Israel is now associated with the European Economic Community, thus permitting entry of goods from member countries without payment of duty, whereas similar goods, imported from the United States, are subject to high duty assessment. This increased cost to the Israeli importer, in many instances, will eliminate the United States exporter as a serious competitor.

"On the other hand, the rather limited quantities of specialized Israeli products, such as medical electronics, etc., imported into the United States will not present any serious threat to domestic manufacturers, as they represent a minute percentage of the demand in the United States market. Furthermore, many of the end products manufactured in Israel are made from raw materials and parts and components imported from the United States. Increased imports into the United States of Israeli products through elimination of duty tariffs would, therefore, create additional business for the United States exporter.

"We wholeheartedly support your contemplated action, and hope that your mission will be successful."

Mr. Nate Landgarten, Senior Executive Vice President & Treasurer, Bell Industries, Inc., 11812 San Vicente Boulevard, Los Angeles, CA 90049, states,

"Our company supports a Free Trade Area with Israel. We are currently an exporter to Israel and our products would be even more competitive there if no customs duties were assessed on imports. We are also trying to import some component tools from Israel so that we can utilize them in making our own products more competitive and, therefore, more exportable.

"Additionally, Israel has certain technologies and know-how that United States companies can utilize. With this additional technology, our own manufacturers can enhance their domestic and international competitiveness.

"Moreover, Israeli products will not pose a great threat to the American manufacturer in the United States market. Israeli's products are generally highly priced because of their technological advancements and because of the high cost of labor in Israel. Even without the assessment of United States customs duties, Israeli's products will not be able to garner large portions of the United States' market."

Mr. Melvin Jaffee, President and Chief Executive Officer, National Lumber and Supply, Inc., 3400 West Garry, Santa Ana, CA 92704 states,

"We wholeheartedly support a Free Trade Agreement between the United States and Israel. The establishment of such an agreement will help our country export more to Israel as well as allow Israeli manufacturers the opportunity to create long range objectives and marketing strategies with regard to the United States market."

Mr. Parviz Nazarian, President, Stadco, Division of Standard Tool and Die Company, 1931 North Broadway, Los Angeles, CA 90031 states,

"The establishment of a Free Trade Area will prevent the disadvantages to United States manufacturers and exporters in marketing their products in Israel. The Free Trade Area will also facilitate the entrance of many United States products into Europe through value added mechanisms in Israel, thereby further broadening the potential market for United States products."

Mr. Leonard Shapiro, Chairman of the Board, Familian Corporation, 1156 North McCadden Place, Los Angeles, CA 90038, states,

"As a United States manufacturer, we have imported some products from the State of Israel and we have a strong desire to export to Israel as well. At this time we are, in fact, attempting to create an Israeli import company for our products.

The major stumbling block, however, is the high duty assessment which puts our products at a distinct disadvantage, especially with the duty free access of EEC manufacturers to the Israeli market. I strongly support a Free Trade Area between the United States and Israel and look forward to its success."

Dr. Felix Zandman, President and Chief Executive Officer of Vishay Intertechnology, Inc., 63 Lincoln Highway, Malvern, PA 19355, states,

"Vishay strongly supports the establishment of a Free Trade Area between the United States and Israel. Such an arrangement would greatly expand trade between the two countries and be beneficial to the economies of both countries.

"Using Vishay as an example, we can foresee increased employment, production and sales at our various United States and Israel facilities as a result of the establishment of a Free Trade Area.

"As exporters of sophisticated, American-made electronic components and equipment from the United States, Vishay sees in the Israeli market, with its constant need for state-of-the-art technology, a very promising customer. Currently Vishay's American-made products are forced to compete at a disadvantage with European-made products that enjoy preferential duty treatment into Israel. The elimination of this competitive disadvantage would allow American exporters of American-made products to compete more favorably with European exporters for the Israeli market. The Free Trade Area would also enable American made goods to enjoy duty-free entry into the European markets with the addition of value in Israel.

"As importers of electronic components made in Israel (from American-made raw materials), Vishay would be able to compete more favorably for the United States market with goods made in Europe and Japan. Additionally, because of the advanced technological capabilities of certain Israeli industries, Israel is the sole source of certain unique products imported by Vishay. The elimination of duties on these products would serve to help stimulate their sale by reducing their price to the customer."

Mr. Erwin Tomash, Chairman of the Executive Committee of Dataproducts Corporation, 6200 Canoga Avenue, Woodland Hills, CA 91365-0746. Dataproducts is an international company with facilities in the United States, Europe, Hong Kong and Puerto Rico which produces computer peripheral equipment. Dataproducts Corporation, the largest manufacturer of printers in the world, employs over 5700 individuals and has annual sales of approximately 400 million dollars. Mr. Tomash states,

"We face increasingly intense competition from Japan and subsidized industry in Western Europe. If the United States is to maintain its position of leadership in the high technology sector and not lose market share to foreign competitors, we must have access to these markets without high tariff barriers. A Free Trade Area between the United States and Israel would remove such barriers. It is tough enough to compete with low cost labor and the subsidies given to our competitors without having the added hurdle of high duty assessments.

"The removal of duties under a Free Trade Area will benefit consumers and manufacturers both directly and indirectly. The administrative costs to manufacturers and exporters of the tariffs and duties is nearly equal to that of the duties themselves. These costs will disappear along with the tariffs once a Free Trade area is initiated."

CONCLUSION

Israel shares with the United States a heritage of democratic traditions and Judeo-Christian values, and is a member of the family of free nations. To quote the Honorable Senator Pete Wilson of California in his testimony regarding the Free Trade Area before the Committee on Finance, United States Senate, "Mr. Chairman, the State of Israel is one of the great democracies of the world, a true voice of freedom in the Middle East, and one of our most important allies." In light of this the advantages of a Free Trade Area are numerous. In addition to deepening a vitally important political, strategic and commercial relationship, a Free Trade Area will tend to create new economic opportunities and new jobs in both the United States and Israel without damaging the interests of the United States. Accordingly, we request that this distinguished body act favorably in its recommendations on this proposal.

EXHIBIT A—ISRAELI TOMATO PRODUCTS IN THE U.S. MARKET

INTRODUCTION

The following is in response to the concerns which have been raised by agricultural interests with specific emphasis on the tomato industry. This Exhibit illustrates that Israel's tomato industry does not cause significant injury to the United States tomato industry. Likewise, many basic facts in this example may be applied to other U.S. agricultural interests which have raised concerns about the threat of Israel's agricultural industry significantly injuring their respective industries. In essence, many of the basic facts utilized in this illustration apply to Israel's agricultural industry as a whole and therefore, to its relationship to the United States agricultural industry as a whole.

TRADE

The most recent statistics which are available for U.S. imports of tomato products are summarized as follows, from the U.S. Foreign Agricultural Trade Statistical Report, Fiscal Year 1982:

	Dollars in thousands	Percent
Tomato paste and sauce:		
World	78,627	100.0
Israel	10,879	13.8
Other tomato preparations:		
World	34,651	100.0
Israel	4,718	13.6
All tomato products:		
World	113,278	100.0
Israel	15,597	13.8

Israel's share of the paste and sauce imports, primarily pizza sauce, is 13.8% of imports. In the "other" category, Israel's share is 13.6%, primarily diced and whole, peeled tomatoes.

These figures represent an increase over 1979, when imports from Israel totaled only 6,436 MT and U.S. total imports were only 49,943 MT. Israel's share was about 13%. In 1982, total imports into the U.S. were 172,665 MT and imports from Israel, 26,575 MT, or about 15%.

Despite the seeming growth trend of total imports, actually total U.S. tomato product imports fluctuate widely each year depending primarily on crop and weather conditions in California and other producing states. There appears to be a one year time lag in imports after crop shortfalls, while domestic stocks are depleted.

	Total U.S. imports, tons finished product	U.S. crop estimate, million tons raw material
1976	58,746	6.5
1977	62,332	7.8
1978	55,878	6.4
1979	49,943	7.3
1980	26,225	6.2
1981	48,423	5.7
1982	172,655	

It should be noted that the above table shows a time lag of high import levels the year after low U.S. crops, and not vice versa. This would tend to demonstrate that imports are the result of diminished supply, and not that U.S. production is reduced as a result of import competition. Furthermore, processing seems to have stabilized at around the 6 million ton level. Above that level, U.S. prices drop, and below that level, U.S. markets attract large imports. Thus, California growers have, in recent years, maintained fairly stable planting. The main cause for shortfall or excess of the 6 million ton level has been weather and crop conditions, not pricing factors. In fact, the period from 1980 until 1983 was marked by a string of bad weather conditions, in which California farmers' crops fell below their expectations.

TRADE INSERT

In any case, it must be remembered that imports are a marginal supplement to total U.S. production, which is estimated as varying between 1 million and 1.2 million tons of finished product per year. Thus, imports constitute between 2% of total market to the extreme of 17% of total market in 1982, with many sources considering 5% to be a normal year's imports.

In sum, the increase in overall U.S. imports, and the increase in Israeli imports into the U.S., has been a result of unfortunate production problems for raw materials in the U.S., not a long-term trend encouraged by cheap imports.

ISRAELI PRODUCTION

Israeli production in 1983 covered 4,500 hectares and produced a total crop of over 300,000 tons, of which 293,000 tons were accepted by processors. Israeli average yields are close to 70 tons/hectare which is far higher than any other Mediterranean producer and considerably above the U.S. average of approximately 22 tons per acre (=56.8 tons per hectare). These high yields allow the Israeli farmer to accept a lower price per ton as compared to other Mediterranean and European producers.

Furthermore, due to severe constraints on available water in Israel, Israeli-adapted tomato varieties have been bred to produce tomatoes of relatively high solid material percentages (Brix measures). Thus, one ton of Israeli tomatoes can produce a greater quantity of concentrate or sauce than tomatoes of other producers.

Beyond the comparative advantage of Israeli producers in the growing stage, Israeli processing plants enjoy a further economic advantage by being integrated into the citrus processing industry. The ability of Israeli factories to operate at close to full capacity year round (June to October on tomatoes, October to April on citrus) provides significant savings on overhead expenses per ton of production. While many American plants do produce nearly year round, few are so well balanced by non-tomato crops that they can keep up full capacity outside of the tomato season.

ISRAELI POTENTIAL FOR INCREASED PRODUCTION

Israeli production has shown a remarkable growth in the past 4 years with the processing crop nearly doubling from 160,000 tons in 1980 to some 300,000 tons in 1983. Exports grew from 15 million dollars worldwide to 38 million dollars in 1983, FOB value. As a result, the Israeli industry is today stretched to nearly full capacity. In the short run of one or two years, the addition of two new processing facilities, which are now under construction or planning, will bring the industry to a capacity of 350,000 tons of raw material. Beyond that point, additional increase in capacity will require massive new investment in factories.

Several factors limit growth beyond the 350,000 ton level. Principally, high capital interest rates and high construction costs in Israel demand very high rates of return from production in order to make new investment attractive to financiers. Those returns are not now available from tomato processing. Second, a small Israel government incentive which had been paid to growers in past years has been cancelled as of the 1984 season; thus, processors are forced to pay higher prices to farmers than in the past. Third, the American market, which allowed the recent growth in the industry, is viewed as an insecure market by Israeli processors. They are well aware that the growth of the exports to the U.S. has been a result of a series of bad-weather years, primarily in California growing areas. When the U.S. crop fell by 5–10 percent, Israel was able to market over two-thirds of its production in the U.S. Israeli producers are fearful that, if a bumper crop gives California growers 10% above expected yields, the U.S. market may be essentially closed to Israeli produce.

Israel today utilizes essentially all of its arable cropland. An even more serious obstacle is the lack of water resources, since Israel is today utilizing slightly over 100% of its annual addition to the national water table. Therefore, it is clear that any addition of land and water used for tomatoes for the processing industry will have to come through a reduction of land and water currently used for other crops.

It is unlikely that any significant contribution of resources will come to the tomato sector from the current resources devoted to vegetables (some 35,500 hectares are today used for growing vegetables, including potatoes and melons), since over half of this production goes to meet local market demand, and another quarter is fresh exports with relatively high returns.

It is expected that some land will be made available for other crops by the gradual shrinkage of Israel's citrus areas. Some agricultural sources in Israel have also suggested that areas now used for cotton or peanuts would give suitable conditions for tomatoes grown for industry. However, in recent years, both of these crops have shown expansion in their areas, and are themselves competing for land previously under citrus groves.

THE EFFECT OF THE FREE TRADE AREA

Israel tomato products are now charged between 13% and 14.6% duty upon entry into the United States. The effect of the elimination of this duty would be to increase the profitability of tomato processing for Israeli processors and farmers. It would not have a significant effect on the American offer price for Israeli tomato products, since Israeli producers cannot quickly increase production and are not eager to divert the 25-30% of production which is now exported to Europe.

Chairman GIBBONS. Well, thank you both for excellent statements.

I have looked at the situation in Israel and I have looked at countries around the world, and I think Israel is making a wise move. I think it would be wise for the United States to reciprocate and that we can work together.

Like the previous witness from the administration, I do not believe that this is a zero sum game. I think both of us will profit by this arrangement, and we will open up opportunities to increase each other's standard of living by doing this. I think it is a wise move.

Mr. Downey.

Mr. DOWNEY. Thank you, Mr. Chairman.

I want to thank both witnesses for their excellent testimony.

For either of the gentlemen—first let me ask with respect to the special trade representative's testimony, about the Senate version of this bill.

Do you have a position one way or the other with respect to that legislation? If you have one, could you tell me what it is?

Mr. DINE. Yes; Mr. Downey.

First of all, you were out of the room when I expressed my appreciation to you for introducing this legislation and your leadership in this regard. I believe H.R. 5377 has the virtue of simplicity and a direct approach to the issue; and therefore I would favor your bill over the Senate Finance Committee-passed measure.

However, having said that, I understand reality as well. As I was listening to other people's comments earlier this morning, I also understand that both the Ways and Means Committee and Finance Committee will certainly want to involve themselves in what comes out of those negotiations. Having myself been a product of the legislative branch, I appreciate that very much.

But in terms of an intellectual analysis of the two measures so far, I certainly commend your effort.

Mr. DOWNEY. Thank you.

Mr. Greenberg, I am now delighted to know that Orange County has a GNP larger than Israel. There may be some members who would like to treat Orange County as a foreign country. I certainly would not. It is a wonderful place to visit. I have always enjoyed my trips there.

What I would like to know from you is the objections that Mr. Thomas has raised, because I think they are valid and they concern his constituents, and they are something that as a member of this committee I take seriously—with respect to olives, tomato paste, almonds, and pistachios—favorites of mine, I might add—

what is your view with respect to how this FTA would impact those products specifically, and growers in California in particular?

Mr. **Greenberg**. What is specifically before this committee today is a bill that would deal with a free trade area between the United States and Israel. Because of the agricultural situation in Israel, there would not be dramatic impact upon growers in this country even in specialty products.

As I mentioned, I am from California, and many growers are located there. However, we have to realize when we deal with the agricultural industry that Israel has a very great shortage of land and a great shortage of water. It is very costly for her in these areas. It is unlikely that she is going to increase her production dramatically in any of these areas. And the production she now has, the likely market for it has always been, and will continue to be, Europe—certainly for perishable goods.

We don't see there being a dramatic change. Even if Israel doubles her exports of many of the agricultural products to the United States, we are talking about a minuscule amount. We are not discussing possible precedent, because each bill for a free trade area would be looked at on its own merits.

Currently, the bill here does not pose a great threat to growers. I have a concern with the growers, being from California and my chamber dealing with them directly. I think their concerns are more a fear of what might happen in the future. But, as I say, future free trade areas will be discussed and determined on their own merits. I don't think this one poses a great threat.

Mr. **Downey**. You think that part of the objection is essentially the foot in the door to other countries as opposed to the fact that the Israeli agricultural movement is somehow going to take large segments of the U.S. agricultural market.

Am I correct in my understanding that the kibbutz movement, for instance, is the breadbasket of Israel, producing 65 to 70 percent of their agricultural goods?

Mr. **Greenberg**. Yes.

Mr. **Downey**. Is it also not true that the kibbutz movement, the historic cornerstone of the Israeli economy, has sought diversity so it has opportunities for the older members of the kibbutz? Therefore, the likelihood that it would be expanding in other areas is just as real as the likelihood that Israel will do most of its additional exporting to the European Community?

Mr. **Greenberg**. That is correct. As a matter of fact, the American-Israel Chamber of Commerce is involved in a move with the kibbutz industries association of Israel, in attempting to find industries for each kibbutz. Very few remain exclusively in agriculture. We see that trend in Israel in general.

As a matter of fact, recently citrus products had a 10-percent reduction in terms of production in Israel because it was simply not efficient in terms of other industrial opportunities available. We would expect this type of trend to continue.

Mr. **Downey**. Mr. Chairman, I——

Mr. **Dine**. If I may, Mr. Downey, again listening to the colloquy between Mr. Thomas and Mr. Lighthizer, it provides another reason for supporting H.R. 5377, which is about the United States-

Israel free trade area, not United States-Israel-Canada or any other countries. So we understand that.

I think Mr. Thomas used the words "in the future" in one of his passages. That has been the modus operandi of our particular efforts in seeing members. We understand these problems, and we are trying to be as realistic as possible.

Mr. **Downey**. Mr. Chairman, I want to thank our witnesses again for the support of the legislation and their hard work on its behalf. I want to apologize to the witnesses and to Mr. Koplan, who will follow and who will not support this legislation, that I have an 11:30 press conference. If I may be excused, I would appreciate it.

Chairman **Gibbons**. Good luck on your 11:30 press conference.

Mr. **Downey**. Thank you, Mr. Chairman. And I want to thank the witnesses.

Chairman **Gibbons**. Mr. Frenzel.

Mr. **Frenzel**. Yes; I want to thank both the gentlemen for their testimony.

I would inquire, when you were asked by Mr. Downey as to which bill you preferred, you expressed a clear preference for H.R. 5377. But I assume that the Senate version is also one which you would endorse if you didn't get something closer to H.R. 5377.

Mr. **Dine**. Yes, sir.

Mr. **Frenzel**. You would prefer to have your own bill unencumbered by other countries?

Mr. **Dine**. Certainly.

Mr. **Frenzel**. Which, I guess, you would get under the Senate version, because you would have to get one later anyway, though; right? You would prefer to do it in one lump rather than two?

Mr. **Dine**. I used the word "simplicity" before, and I think that is one definition.

Mr. **Frenzel**. That makes sense. The way we write law around here, they are usually lumps.

Mr. **Dine**. We all appreciate camels.

Mr. **Frenzel**. Thank you very much. I appreciate the testimony of you both.

Chairman **Gibbons**. Mr. Schulze.

Mr. **Schulze**. Thank you, Mr. Chairman.

Gentlemen, I am unfamiliar with the jewelry industry in Israel. Can you tell me something about it, what kind of jewelry we are talking about and where it comes from, and how much is imported to us here?

Mr. **Greenberg**. Certainly, there are polished diamonds which have very little added value, and there are gold and gold chain products.

I might indicate that in terms of the amount of exports, Israel's total jewelry industry in 1982 was $119 million, of which $109 million of that amount was exported—$91 million to the United States.

There are very interesting points; $91 million is the total export to the United States. In comparison, Italy exports similar products to the United States of $1.5 billion, some 15 times that same amount.

Mr. **Schulze**. In jewelry?

Mr. **Greenberg**. In the same type of products, yes.

Mr. **Schulze**. Is that limited to diamonds and gold items?

Mr. **Greenberg**. Primarily those are the products.

I might also indicate there is a very important aspect. Currently, Israel's major products in that industry are covered by the GSP, and even with their current duty-free access of their two major products, which make up the great bulk of their exports, they have stayed 10 percent below the competitive need limits of the GSP. As such, we can certainly ascertain that if duty free exists and there is not a problem, that this is not a great threat to the U.S. jewelry industry.

Mr. **Schulze**. Are diamonds indigenous to the State of Israel?

Mr. **Greenberg**. No.

Mr. **Schulze**. Where do they come from?

Mr. **Greenberg**. I would have to check. I don't deal with that. But I know they import. There is not a great deal of added value in Israel, and not a great deal of stress in that industry in Israel in terms of growth.

Mr. **Schulze**. How about gold?

Mr. **Greenberg**. I am not sure the extent of added value. I could check that and get back to this committee on that.

[The information follows:]

The following is the information requested by Mr. Schulze and the Subcommittee on Trade, regarding the added value to Israel's gold and diamond industries and regarding the source(s) for importation of gold and diamond raw materials by Israel.

The added value of gold is only a small percentage of the total value of the finished products from Israel. Since all raw gold is imported, the added value is the cost of labor involved in finishing the products. Exact statistics on the added value of gold are still being researched, I respectfully request that this committee accept these statistics when same are compiled. Israel imports the majority of its rolled and semi processed gold from Switzerland (the largest exporter of gold to Israel) and the Netherlands (the second largest exporter of gold to Israel).

As with gold, the added value of diamonds in Israel is only a small percentage of the total value of the finished products. Since all raw diamonds are imported, the added value is the cost of labor involved in finishing the products. The added value of polished diamonds in Israel over the past two years has averaged only about 25% based on data from Israel's Central Bureau of Statistics. In addition, according to Mr. Alan Ginsberg, President, International Diamond Division, Zale Corporation, a major international jewelry company with corporate offices in the United States and a major diamond cutting subsidiary in Israel, "the majority of the added value is the actual cost of the labor, . . . 90% of Israel's diamond production has no domestic United States Competition." As mentioned, Israel imports all of her raw diamonds. The source of raw diamonds imported by Israel is the Debers Syndicate in London.

The source for the above statistical information is the Government of Israel.

Mr. **Schulze**. The gold, I presume, is imported. And there are no gold mines?

Mr. **Greenberg**. That is correct.

Mr. **Schulze**. Are you aware of a bill which worked its way through this subcommittee and the full committee and is awaiting action by the full House under the leadership of the chairman of this subcommittee, in regard to trade items having to do with targeting and dumping and that kind of thing?

Mr. **Greenberg**. Yes; I have been made aware of it. I am certainly not briefed on the details and would like to say I am not—I don't have expertise on it.

Mr. **Schulze**. Maybe you won't be able to answer this, but do you know whether, if that legislation were implemented, Israel could abide by the limitations placed by that legislation as far as targeting, dumping, et cetera?

Mr. Greenberg. Yes; I think that Israel certainly could abide by the provisions, from what I understand to be the case. I don't think that that would pose a problem in terms of compliance. I don't think any of the things covered in that bill are things Israel would have a problem with.

Mr. Dine. Mr. Schulze, to the best of our knowledge, Israel has not been found to dump into the American market and would not be seriously affected by that legislation.

Mr. Schulze. How about subsidies?

Mr. Greenberg. Subsidies are, as has been mentioned earlier by the USTR, a matter of current negotiations. Certainly, it is common knowledge that there are some subsidies in Israel, and this is one of the areas that needs to be negotiated in a free trade area. The free trade area is one that is to be mutually advantageous to both the United States and Israel.

Nothing, as you know, is a panacea. There are problems. There are some problems with the agreement from the Israeli side as well as problems from the American side. With the proper dialog, with the proper legislation to implement it, proper negotiations, we feel any stumbling blocks can certainly be overcome as they were in negotiations in the free trade area with Europe. These negotiations might be somewhat different, but nonetheless we don't see any obstacles to overcoming whatever current issues there are.

Mr. Dine. Mr. Schulze, could I add a comment or two on that?

Mr. Schulze. Before you do, if they can be overcome, why haven't they been?

Mr. Greenberg. Well, as the USTR mentioned, at the present time negotiations have not begun in any product-specific categories. Really, just generalized talks have been held. During the talks, problems have been identified.

Mr. Schulze. I can't hold you responsible for these things, and it may not be fair to ask these questions, but the subsidies code is a pretty clear-cut code; do you know why Israel has not been a signatory to the subsidies code?

Mr. Greenberg. I think, as has been mentioned, Israel has its own unique situation in terms of the trading world, and I alluded to that. I think under the proper circumstances of fair reciprocal trade, they will be more than willing to make necessary concessions.

I know that is contemplated to be a major subject of negotiation here. And, as I say, from my understanding I don't feel it will be an obstacle toward implementation of the agreement.

As far as the past, there are differences in Israel's trade and the trade situation of many other countries, and that has had quite an effect.

Mr. Dine. If I may just make an observation, subsidization of Israeli industry is now a political football within the Israeli electorate. I was just there last week, and the elections are heating up leading into the July 23 election date. They are going to have to bite the political bullet on this one, and it is very, very tough for the Likud government, which is in power, to do.

Mr. **Schulze**. What industries are being subsidized? I am not aware of them.

Mr. **Weiss**. There is currently only one outstanding countervailing duty order against products from Israel, and that involves fresh-cut roses from Israel. There is no other countervailing duty order issued by the Commerce Department.

There is one pending investigation involving bromine. There is another that involves subsidies and dumping, an allegation——

Mr. **Conable**. What was the second one?

Mr. **Weiss**. Bromine, b-r-o-m-i-n-e. It is currently under investigation. The petition has been filed, and no final determination has been made.

Moreover, several years ago there was also a countervailing duty petition filed against bromine from Israel, and that was rejected at that time; and it was found that there were no subsidies in fact on that product. So I would hope that we would have the same result this time around.

Mr. **Schulze**. Is there the potential for downstream dumping in the chemical industry in Israel?

Mr. **Weiss**. I don't think so.

Mr. **Schulze**. That is in the bill.

Mr. **Weiss**. In the Gibbons bill, yes. I am aware of that.

I don't believe there is, no.

Mr. **Schulze**. OK.

Mr. **Weiss**. I would say that any topic that is covered under Chairman Gibbons' proposed legislation, if not already the subject of preliminary discussions between the STR and the Israeli Government, I am sure can be. And the subsidies issue is really the most profound issue. And I know that that is under preliminary discussion, and that would be a subject of further discussion once the negotiation authority is granted.

Mr. **Schulze**. I might add that I am hearing an awful lot from the tomato growers and/or processors in Pennsylvania. I didn't know there were that many of them.

Is this mainly tomato paste? I thought most of that came from Italy. Is there a great deal of tomato products or paste? What is it that comes in?

Mr. **Greenberg**. Tomato paste, pizza sauce, and one other form of processed tomatoes are the subject of the concerns from the tomato growers.

If I may, just for a moment, I would like to correct a statement I made earlier on a different subject. Italy jewelry imports—I could not read my writing—to the United States are not $1.5 billion but rather $500 million. So it is five times that of Israeli imports to the United States; not 15 times. I would like to make that correction.

Mr. **Schulze**. Tell me about tomatoes.

Mr. **Greenberg**. They are an interesting subject because of the concerns we have in the United States. The United States has 6 million tons production per year. Israel's total production is 300,000 tons per year. Projected growth, because of the cost of financing additional production, because of the fact that other cash crops such as ground nuts and cotton have been more efficient for the industry—projected growth of the tomato industry in Israel over the next few years is only to a total of 350,000 tons. Currently, Israel has a very minute percentage of the market, and with that small growth we don't see it as a major threat in terms of those concerns.

Again, I believe the concerns that have been expressed are as to possible precedent with other countries. I might indicate, this is a reciprocal agreement with Israel and not unilateral. And agreements with other countries would be determined on a case-by-case basis as to their merits, as well.

Mr. **Schulze**. Thank you.

Thank you, Mr. Chairman.

Chairman **Gibbons**. Thank you.

Mr. Thomas.

Mr. **Thomas**. Thank you, Mr. Chairman.

For either Mr. Dine or Mr. Greenberg—and I am pleased to know, Mr. Greenberg, that you indicated you are from California and familiar with California agriculture, so you can enlighten me and some others about the similarities and dissimilarities between agriculture in Israel and agriculture in the United States—first of all, would you say that the economic structure of agriculture in California is similar to the economic structure of the agriculture in Israel?

Mr. **Greenberg**. I would say not, primarily because a great deal of agriculture in Israel comes from the kibbutz industries which have a totally different economic system.

Mr. **Thomas**. What kind of economic system do they have?

Mr. **Greenberg**. Well, I guess best described as co-op, communal.

Mr. **Thomas**. Co-ops as described by co-ops in the United States who have a number of co-operatives to grow a number of agricultural products; is that a similar structure?

Mr. **Greenberg**. I distinguish it in co-ops to the United States to the situation where it is not only industrial sharing but actually a social, economic, industrial, and community sharing of all aspects, rather than just an industrial grouping in terms of marketing.

Mr. **Thomas**. You would not go so far as to say from each according to his ability, to each according to his needs—you wouldn't go that far?

Mr. **Greenberg**. I would not go that far, no.

Mr. **Thomas**. But it comes quite close to that, doesn't it, in terms of a communal structure for both industrial and agricultural production?

Mr. **Greenberg**. Well, I think in terms of brevity, in some ways it does. I did not come prepared to describe the social structure of the kibbutz, and I think we are getting into that.

Mr. **Thomas**. I am more interested in the economic structure of the kibbutz.

Do they pay hourly wages?

Mr. **Greenberg**. No; they don't pay hourly wages.

Mr. **Thomas**. What kind of agricultural products do the kibbutz produce?

Mr. **Greenberg**. They produce a wide variety of agricultural products.

Mr. **Thomas**. Any of the processed tomato products that Mr. Schulze was talking about?

Mr. **Greenberg**. Yes.

Mr. **Thomas**. Where are they located? Where principally is the agricultural production in Israel?

Mr. **Greenberg**. I wouldn't be sure offhand where the tomato production is, but the agricultural production in Israel is really located throughout the country.

Mr. **Thomas**. Throughout the country.

Are we talking about a free trade area, including the country, as well as occupied territories?

Mr. **Greenberg**. Well——

Mr. **Dine**. In those areas that are administered by Israel today——

Mr. **Thomas**. Did you say "administered"?

Mr. **Dine**. Yes.

Mr. **Thomas**. What does that mean?

Mr. **Dine**. That means that the Israeli military administers the military law of that area—of areas taken in 1967.

Mr. **Thomas**. Does it mean that it would cover any of the administrative areas that Israel now or may control?

Mr. **Dine**. I was going to say—I don't frankly know the answer to that. But I just wanted to give you an observation.

Mr. **Thomas**. I see.

There is limited agricultural land that Israel has available, and you are telling me now we are really talking about the lands that Israel does or may administer—certainly a lot more than in the nation State of Israel.

Mr. **Dine**. There is very little agriculture in those areas. That was my point.

Mr. **Thomas**. Are we talking about agricultural products from the West Bank included in the free trade area?

Mr. **Greenberg**. Certainly—if I might interject—if the bill were to include that and recognize it, certainly Israel would recognize it. However, that would not be a stumbling block in terms of Israel's desire for a mutually acceptable FTA.

Mr. **Thomas**. The answer is, if we decide it is in, it is in; if we decide it is out, it is out. Is that what you are saying?

Mr. **Greenberg**. I am not on the negotiating team, as you know, Mr. Thomas. But my understanding would be that that is the way the issue would be dealt with.

Mr. **Thomas**. So what I tell my people back in California is we don't know whether the West Bank agricultural crops will be included in the FTA or not; is that the answer?

Mr. **Greenberg**. Well, I would go back to what Mr. Dine mentioned. I have been there many times recently myself, as well. I didn't see any of the products being grown on the West Bank that would be of concern to your constituents in California.

Mr. **Thomas**. There are no citrus grown on the West Bank?

Mr. **Greenberg**. Very, very little.

Mr. **Thomas**. No tomato products grown on the West Bank?

Mr. **Greenberg**. Very, very little. I would never make the statement "none." But very, very little.

Mr. **Thomas**. Is there interest in growing more on the West Bank?

How is the soil on the West Bank compared to most other areas in Israel? Is there a desire to grow more on the West Bank?

Mr. Greenberg. It has certainly been Israel's position since 1948 to, when it can, cultivate all the land.

Mr. Thomas. What about the quality of soil? Is the West Bank soil quality better than other areas, worse, or what is the potential for an agriculture on the West Bank?

Mr. Greenberg. I don't know the answer to that question. I would have to research it and get back to this committee.

[The information follows:]

The following is the information requested by Mr. Thomas and the Subcommittee on Trade, regarding agricultural production on the West Bank and regarding quality of soil on the West Bank.

According to statistics which cover the period of 1980–1982, annual agricultural output on the West Bank was approximately $35.5 million U.S.D. Agricultural exports from the West Bank amounted to only about 10 percent of its total agricultural output. In spite of Israel's policy to develop and cultivate land where and whenever possible, there is no expectation of increased production on the West Bank. At present there are no known plans for further investment, Israeli or otherwise, on the West Bank.

Of the available land on the West Bank, 50 percent can and is being used for agricultural purposes (approximately 16.5 percent for grazing, approximately 16.5 percent for plantation, and approximately 16.5 percent for field crops). The total amount of water available in the region varies with the amount of rainfall (i.e., between 80 and 90 million cubic meters). Half of the water is from wells and half is surface water. According to Israel's Ministry of Agriculture, water on the West Bank has an average chloride content of between 200 and 600 milligrams per liter. The water is used primarily (i.e., 95 percent) for agricultural purposes.

In 1982 most West Bank agricultural exports went to Jordan as indicated on page 95 of the transcript. In fact, statistics indicate that 65 percent of West Bank exports went to Jordan in 1982. Israel received the remaining 35 percent of agricultural exports from the West Bank. Even were we to assume that exports from the West Bank were to enter the United States, the impact of a market whose total annual exports are approximately 3.5 million U.S.D. would be negligible when measured against the vast U.S. economy.

There are no substantial restrictions on exports from the West Bank entering Israel (i.e., licensing of agricultural exports to Israel is the only restriction). In light of this fact and because both Israel and Jordan are geographically proximate to the West Bank, these two venues will continue to be the primary recipients of West Bank exports.

The following chart illustrates the types of agriculture produced on the West Bank and 1982 production levels.

	IS millions
Crops	4,407
Field crops	247
Vegetables [1]	951
Melons and pumpkins	134
Olives	1,900
Citrus	349
Other fruit	826
Livestock and livestock products	2,161
Meat	1,471
Milk	573
Eggs	105
Other	12

[1] Total tonage for vegetables in 1,000's tons was 159.5, of that, tomatoes constituted 49.6 or 31 percent of total tonage.

Source: The above information and chart is from the Government of Israel.

Mr. Thomas. Mr. Dine, do you know?

Mr. Dine. What I have observed, sir, is it is filled with rocks; and not that the rocks can't be moved, but it would be a very expensive operation.

Mr. **THOMAS.** So it is not your understanding that the West Bank has a very decent agriculture potential in terms of the soil quality as compared to other areas that are now in the nation State of Israel?

Mr. **DINE.** That is right.

Mr. **GREENBERG.** In addition, I might add that primarily almost all of what is grown on the West Bank is shipped to Jordan, and certainly that makes a very convenient market. I wouldn't anticipate that they would want to change the direction there, especially since many of the occupants of the West Bank are Jordanian themselves.

Mr. **THOMAS.** In addition, this economic structure you indicated produces 65 to 70 percent of the vegetable agricultural products of Israel.

Do you have any feeling for the percentage, for example, of the processed tomato products, which really is kind of, say, a mature technology, but nevertheless a technological aspect of agriculture? Do you have any rough percentages of what is produced in the kibbutz structure there?

Mr. **GREENBERG.** No; I don't.

Mr. **THOMAS.** Is any of it produced in that structure?

Mr. **GREENBERG.** Yes; it is. And, again, I would be more than willing to obtain those statistics.

[Additional information follows:]

The following is the information requested by Mr. Thomas and the Subcommittee regarding kibbutz production in agriculture and industry, and regarding the kibbutz economic structure.

As indicated on page 97 of the transcript, kibbutzim in Israel operate as independent economic entities with their own internal structure but within the socio-eonomic system and structure of the country as a whole. At present, there is no definitive answer as to the contributions to Israel's GNP made by kibbutzim. However, based on their agricultural output, which is 42% of Israel's total agricultural output and their industrial output, which is 5.1% of Israel's total industrial output, excluding diamonds, it can be estimated that kibbutzim account for approximately 3.6% of Israel's total GNP. Kibbutzim contribute only minimal output in the area of services and therefore the numbers for kibbutz services output are not listed separately but are reflected in the overall percentage of GNP. Please note that although some current estimates indicate that kibbutzim contribute as much as 65% of Israel's total agricultural output, 42% was the contribution of kibbutzim to Israel's total agricultural output in 1982.

The source for the above statistical information is the Government of Israel.

Mr. **THOMAS.** I appreciate that. So we have a combination agricultural and industrial model based on a communal structure which will be supplying products in a FTA between the United States and Israel.

Mr. **GREENBERG.** It is important to note that the communal structure you refer to is the structure which is simply one citizen, one entity.

I might treat it as an individual citizen within a democratic framework. It is not as if the economy of the country is a communal economy. A corporation in this country, for instance, is treated as an individual citizen and has its own economy.

Just the same, a kibbutz in Israel, if we could compare it to a corporation, has its own economy but must abide by the rules, regulations, laws and the rest of the social structure and economy of the country as a whole.

So in those terms, I would not want to contrast totally the kibbutz operations in terms of production to American industries and co-ops in terms of their production.

Mr. **Thomas**. The figure of 65 to 70 percent of the agricultural products produced, consumed, and exported are produced in the kibbutz structure, is that correct?

Mr. **Greenberg**. The kibbutz exports slightly less than the rest of the economy.

Mr. **Thomas**. Of the agricultural products?

Mr. **Greenberg**. Yes.

Mr. **Thomas**. Produced and exported agricultural products, you are saying the kibbutz exports percentagewise less than the rest of the economy?

Mr. **Greenberg**. Yes; that is correct.

Mr. **Thomas**. So we have 35 to 40 percent of the agricultural products produced outside the kibbutz structure?

Mr. **Greenberg**. Yes.

Mr. **Thomas**. And that sector of the economy does most of the exporting?

Mr. **Greenberg**. It does a higher pro rata share of exporting but in terms of agriculture, I would suspect that over all more of the absolute numbers of export would come from the kibbutz industries.

Mr. **Thomas**. Are there any subsidies from the state to the kibbutz structure?

Mr. **Greenberg**. In terms of tomatoes there are no more subsidies at all. They have been abolished.

In terms of other subsidies, a kibbutz can qualify as does other industry. But, as has been mentioned by Mr. Weiss, there are very few subsidies currently in Israel and, as I have mentioned, it is a subject of the negotiations of this agreement.

Mr. **Thomas**. Are there subsidies whether broadly or narrowly applied from the state to the kibbutz structures?

Mr. **Greenberg**. I'm sorry, I didn't hear.

Mr. **Thomas**. Is there any kind of assistance from the state to the kibbutz structure that could be of social or otherwise structured nature rather than a narrow economic subsidy?

Mr. **Greenberg**. No; none that I know of offhand.

Mr. **Thomas**. Thank you very much for your testimony.

Just in terms of the possible precedent aspect, I appreciate that each one will stand on their own, but, as you know, almost everything that stands after the first takes at least to a degree consideration of the first.

So, however much you may want to distinguish that all of the other negotiations can be separate from the one we are carrying on now as basically creatures of habit in history, as you well know, what occurs now will definitely shape what is done in the future. Although clearly, with most other countries we will be dealing with, you have a unique economic structure of a communal nature providing 65 to 70 percent of the agricultural products, a large percentage of which would be involved in the export to the United States.

So to that degree, clearly there would be different responses in different countries.

In addition, one of the concerns I have in terms of future prospects, you indicated that primary agriculture trade between Israel and the rest of the world is focused on the European Community. The concern we have is in those Mediterranean products currently exported from Israel to the European Community will lose their market in the European Community. You have a nation like Spain, which certainly can compete, for example, on a processed tomato product with the United States and Israel.

Our concern perhaps is that although the assurance has been given a number of times that the traditional trading patterns that are now in effect will be retained, we have no assurance of that, that in fact under a free trade structure, once it is established, unless there are clear steps which have to be found before additional amounts are allowed in—which is kind of against the definition of a free trade area—we have no assurance that the dynamics currently going on within the European Community won't alter the United States-Israeli trade relationship significantly, perhaps not in total dollar amounts by whatever statistics you want to indicate, or the $300,000 of processed tomato products, as we currently have.

I also would underscore the fact that, for example, tomato products are row crops and you can change row crops from year to year. I would feel much more comfortable if the major arrangement were in permanent crops, which takes 10 to 12 years to develop, so you have to commit yourself to a long-term program.

So the concern I have in many of the growers of California, Mr. Greenberg, as you are very familiar with, are the ability of areas like Israel and California where you don't worry about water coming from the sky, you can deliver it through an irrigation system and you can grow whatever it is that is economically viable. When it is a row crop, you can change from year to year significantly.

So that is some of the concerns we have, not just in terms of potential future agreements with other countries, but from an indication of the testimony today, we are dealing with areas under the administrative control of Israel and would be part of the negotiations.

We don't know what acreage we are talking about. Apparently, we don't know the quality of the land that we are talking about. Nor do we know the potential for converting over vast areas on the basis of economic incentives on annual crops.

All of those are direct concerns in terms of the trade arrangement with Israel and not in terms of any kind of future bilateral arrangements that the United States may have with any other country.

Mr. **Greenberg**. There is no assurance that that would continue but there certainly is reason to believe it would and you mentioned a very interesting point that tomatoes are an annual crop.

I would like to mention that on page 3 of the exhibit to my written testimony, there is a very interesting chart which details that, in fact, the trends show that Israeli imports to the United States of tomatoes increase only after a bad year in the U.S. growing season. Also, that the trends of tomato exports to the United States seem to cover increases in U.S. consumption.

That would lend credibility to the fact that Israel would not use the United States to shift emphasis of tomato exports but give exports to the United States when U.S. crops have not been sufficient to cover U.S. consumption.

Therefore, that further, as I say, gives credibility to the trend that their primary market is always Europe; the United States is a secondary market and not a market which will shift emphasis of Israeli agricultural exports, specifically tomatoes.

Mr. **Thomas**. I would say to you again that if there is a significant change in that primary European market, clearly a free trade arrangement with the United States provides a significant fallback position for Israel and once a portion of the market is captured, as you well know again in dealing with specialty agriculture products, you have shelf space to be concerned with, relationships that can be established over a short time that can change dramatically in the specialty agriculture market.

I thank the chairman very much.

Chairman **Gibbons**. Thank you, sir.

Further questions?

We thank both of you gentlemen and the people that accompanied—go ahead.

Mr. **Dine**. I forgot to introduce the person who accompanied me, Ms. Ester Kurz, and I would like the record to show that.

Chairman **Gibbons**. We are glad to have you here, Ms. Kurz. I know of your participation in this testimony. I appreciate it very much.

Our next witness is Mr. Stephen Koplan, who is the legislative representative of the American Federation of Labor & Congress of Industrial Organizations.

Welcome, Mr. Koplan.

STATEMENT OF STEPHEN KOPLAN, LEGISLATIVE REPRESENTATIVE, DEPARTMENT OF LEGISLATION, AMERICAN FEDERATION OF LABOR & CONGRESS OF INDUSTRIAL ORGANIZATIONS, ACCOMPANIED BY MARK ANDERSON, ECONOMIST, DEPARTMENT OF ECONOMIC RESEARCH

Mr. **Koplan**. I am accompanied by Mark Anderson, economist in our department of economic research.

I will not read the full text of my statement but would ask that the full text appear in the record as it is presented.

Chairman **Gibbons**. All right, sir. Without objection, your full statement will be included at such point you designate.

Mr. **Koplan**. Mr. Chairman, the AFL-CIO appreciates this opportunity to present our views in opposition to the administration's proposal to establish a free trade area with Israel, as well as our opposition to H.R. 5377, which gives the President authority to enter into a trade agreement that eliminates U.S. restrictions and tariffs on products from Israel.

These proposals are a matter of grave concern to the AFL-CIO and our affiliate unions. We believe that the establishment of a free trade area with Israel, or with any country, simply places an additional burden on American workers who are already paying a heavy price of unemployment and lost earnings due to trade and economic policies that have resulted in decreasing exports and a rising flood of imports.

In addition, a bilateral agreement of this kind flies in the face of the congressionally approved tariff cuts agreed to in the Tokyo round of the multilateral trade negotiations and currently being put in place. We urge Congress to withhold the authority to conclude such an agreement and maintain the minimal protection and safeguards currently in law.

Free trade areas such as the one being considered by the United States and Israel are a deviation from most-favored-nation treatment but are permitted as long as they are structured to meet certain criteria.

Among other things, the agreement must cover substantially all trade between the parties and must be staged into effect within a reasonable length of time. Therefore, protections to American workers for import-sensitive products, such as those contained in the recently enacted Caribbean Basin Initiative or the generalized system of preferences [GSP], would not be permitted in an Israeli free trade area. Nor would the minimal safeguards now contained in GSP be applicable.

In addition, the United States is party to some 48 bilateral friendship, commerce, and navigation [FCN] treaties or similar agreements—attachment 1—many of which may require unconditional most-favored-nation treatment. A list of those are attached to my prepared statement, which we obtained from the State Department. Many of them may require unconditional most-favored-nation treatment.

The unconditional most-favored-nation clause was included in treaties for the first time in 1923. A representative example of such a clause is included in the 1933 agreement between the United States and Saudi Arabia.

It says in part that:

> Every concession with respect to any duty, charge or regulation affecting commerce or navigation now accorded or that may hereafter be accorded by the United States of America, its territories and possessions, or by the Kingdom of Saudi Arabia to any foreign country will become immediately applicable without request and without compensation to the commerce and navigation of the Kingdom of Saudi Arabia and of the United States of America, its territories and possessions, respectively.

I might mention I just obtained a copy of a similar treaty with Honduras that dates back to 1927 and has very similar language.

We recommend that each of the FCN treaties and similar agreements identified in attachment 1 be carefully examined to determine whether a bevy of countries will be entitled to unconditional most-favored-nation treatment.

As this subcommittee knows, the AFL–CIO has historically been one of the most vocal supporters of Israel in the United States. Our commitment to Israel goes far beyond our trade union links with Histadrut.

Our opposition to this proposed agreement in no way suggests a lessening of our commitment. Rejection of this agreement is not anti-Israeli. It is rather a positive expression of concern over the health of U.S. industry and the employment of American workers.

Our concern over this potential agreement is twofold. First is the issue of precedent. If agreement can be reached, and Congress approves, it would be the first such free trade arrangement in U.S. history. Its establishment would make future requests from other countries for free trade areas much more difficult to refuse.

The economic and political rationale given by the administration for establishing a free trade area with Israel will be cited as precedent by many other countries in the world.

Is this initiative the start of the process where similar negotiations will soon commence with South Korea, the Philippines, or the European Economic Community?

Further, how many of the FCN treaties provide for unconditional most-favored-nation treatment if tariffs are eliminated for Israeli goods?

The U.S. market is already the most open in the world and the elimination of the minimal protections now in place will only accelerate the downward spiral of the Nation's industrial strength.

Second, there are numerous potential problems that are specific to such an agreement between the United States and Israel.

The establishment of a free trade area would eliminate the little protection import-sensitive industries currently have under GSP.

In fact, it is our understanding that this is one of the principal reasons the Israeli Government is seeking such an agreement. They are apparently concerned that the preferential access granted them is too limited and inhibits their exports to the United States in a wide variety of products.

Industries that might be affected through the elimination of duties include: Sophisticated medical equipment, engine parts and aircraft parts, jewelry, glass, various types of machinery and electrical equipment, textiles and apparel, and footwear and leather products. Many of these industries have already been recognized by Congress as being import sensitive and are experiencing high levels of unemployment.

Completion of this agreement would only contribute to their difficulties. The Israelis themselves acknowledge that this agreement would provide a tremendous boost for their exports.

In the February 28 edition of the Journal of Commerce, Rami Gutt, director general of the Export Institute of Israel was quoted as saying:

> The free trade area can double our exports to the United States. If, at present, 20 percent of our exports go to the United States and 60 percent to the Common Market, those to the U.S. will increase to 40 percent, while the Common Market will buy only 45 percent.

I mention that because the testimony of the previous panel seemed to indicate the opposite.

Mr. Gutt also stated:

> Although our emphasis will remain on high technological items, for we see our future in this field, there will be a definite upsurge in consumer goods which, unlike industrial goods, at present face high customs duties in the U.S.

We are told, however, that this agreement would be mutually beneficial in that it would also ensure access to the Israeli market for U.S. exports. We believe that duty-free access to the $8 billion

Israeli market in no way matches the benefit of unfettered access to the $3 trillion U.S. market.

Announced measures of the Israeli Finance Ministry to address their balance-of-payments problems by increasing exports and reducing imports makes expectations of larger U.S. exports unrealistic at best.

Further, it is difficult to understand how acknowledged Israeli Government practices of industrial targeting, subsidization, and state-owned enterprises fit in the concept of a free trade area.

While these policies are a proper and justifiable expression of Israel's domestic political and economic concerns, there is no reason for the United States to believe that trade will take place between the two countries on the model of Adam Smith.

It should also be remembered despite the poor state of the Israeli economy, unemployment there is far below the 7.8-percent rate in the United States.

Mr. Chairman, the close relationship that we have historically had with Israel, emphasized earlier in our testimony, has made our opposition to a United States-Israeli free trade area particularly difficult. However, we strongly believe that such a proposal will not be to the mutual benefit of the two countries.

A weakened, ineffectual United States is not going to be a helpful ally to Israel. Progress toward our common goals of freedom, democracy, and economic security will be better served by the reindustrialization of America.

Thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF STEPHEN KOPLAN, LEGISLATIVE REPRESENTATIVE, DEPARTMENT OF LEGISLATION, AMERICAN FEDERATION OF LABOR & CONGRESS OF INDUSTRIAL ORGANIZATIONS

The AFL-CIO appreciates this opportunity to present our views in opposition to the Administration's proposal to establish a free-trade area with Israel, as well as our opposition to H.R. 5377 which gives the President authority to enter into a trade agreement that eliminates U.S. restrictions and tariffs on products from Israel. These proposals are a matter of grave concern to the AFL-CIO and our affiliate unions. We believe that the establishment of a free-trade area with Israel, or with any country, simply places an additional burden on American workers who are already paying a heavy price of unemployment and lost earnings due to trade and economic policies that have resulted in decreasing exports and a rising flood of imports. In addition, a bilateral agreement of this kind flies in the face of the Congressionally approved tariff cuts agreed to in the Tokyo Round of the Multilateral Trade Negotiations and currently being put in place. We urge Congress to withhold the authority to conclude such an agreement and maintain the minimal protection and safeguards currently in law.

Free-trade areas such as the one being considered by the U.S. and Israel are a deviation from Most-Favored-Nation Treatment under the General Agreement on Tariffs and Trade (GATT), but are permitted as long as they are structured to meet certain criteria. Among other things, the agreement must cover **"substantially all trade"** between the parties and must be staged into effect within a reasonable length of time. Therefore, protections to American workers for import-sensitive products, such as those contained in the recently enacted Caribbean Basin Initiative or the Generalized System of Preferences (GSP), would not be permitted in an Israeli free-trade area. Nor would the minimal safeguards now contained in GSP be applicable.

In addition, the United States is party to some 48 bilateral Friendship, Commerce, and Navigation (FCN) treaties or similar agreements (attachment one), many of which may require unconditional most-favored-nation treatment. The unconditional most-favored-nation clause was included in treaties for the first time in the Treaty of Friendship, Commerce and Consular Rights of 1923 with Germany. A representative example of such a clause is included in the 1933 agreement between the U.S. and Saudi Arabia:

> "In respect of import, export and other duties and charges affecting commerce and navigation, as well as in respect of transit, warehousing and other facilities, the United States of America, its territories and possessions, will accord to the Kingdom of Saudi Arabia, and the Kingdom of Saudi Arabia will accord to the United States of America, its territories and possessions, unconditional most-favored-nation treatment. Every concession with respect to any duty, charge or regulation affecting commerce or navigation now accorded or that may hereafter be accorded by the United States of America, its territories and possessions, or by the Kingdom of Saudi Arabia to any foreign country will become immediately applicable without request and without compensation to the commerce and navigation of the Kingdom of Saudi Arabia and of the United States of America, its territories and possessions, respectively." (Attachment two, full text of agreement.)

We recommend that each of the FCN treaties and similar agreements identified in attachment one be carefully examined to determine whether a bevy of countries will be entitled to unconditional most-favored-nation treatment.

As this Committee knows, the AFL-CIO has historically been one of the most vocal supporters of Israel in the U.S. Our commitment to Israel goes far beyond our trade union links with Histadrut. The 1977 AFL-CIO Convention in Los Angeles put it in the following manner:

> "Our support of Israel is not a function of which party is in power at a particular moment, but rather is rooted in a deep respect for the extraordinary achievements of that small country, working through the democratic process, and in our conviction that the democratic road offers the best hope of progress and peace for all the countries of that region."

The 1983 Convention stated: "The AFL-CIO reaffirms its support for Israel, the only democratic state in the Middle East and a strategic ally."

Our opposition to this proposed agreement in no way suggests a lessening of our commitment. Rejection of this agreement is not anti-Israeli. It is rather a positive expression of concern over the health of U.S. industry and the employment of American workers.

At a time when the U.S. is experiencing a huge merchandise trade deficit with a rapidly increasing volume of imports, additional reduction of U.S. tariff and other protections just does not make sense. For 1983, the U.S. merchandise trade deficit reached $69.4 billion, almost 63 percent greater than the deficit experienced in 1982. During the last year, exports dropped by $11.2 billion, while imports increased by $15 billion. In the first quarter of 1984 alone, the U.S. deficit reached almost $30 billion and will probably exceed $120 billion by year end. For manufacturing, the international position of the U.S. deteriorated even more dramatically. The traditional manufacturing trade surplus of the 1970's has now become a deficit. The record manufacturing trade deficit of $38 billion in 1983 will grow to close to $85 billion by the end of 1984. This huge deficit has contributed significantly to the deterioration of America's industrial base and our continuing high levels of unemployment. It is estimated that this trade imbalance is responsible for the loss of more than two and one-half million American jobs.

It is our firm belief that the Israeli free-trade area proposal is not in the interest of the U.S. and can only contribute to the further decline of the U.S. industrial structure by increasing imports from Israel.

Our concern over this potential agreement is twofold. First is the issue of precedent. If agreement can be reached, and Congress approves, it would be the first such free trade arrangement in U.S. history. Its establishment would make future requests from other countries for free-trade areas much more difficult to refuse. The economic and political rationale given by the Administration for establishing a free-trade area with Israel will be cited as precedent by many other countries in the world. Is this initiative the start of the process where similar negotiations will soon commence with South Korea, the Philippines, or the European Economic Community? Further, how many of the FCN treaties provide for unconditional most-favored-nation treatment if tariffs are eliminated for Israeli goods? The U.S. market is already the most open in the world and the elimination of the minimal protections now in place will only accelerate the downward spiral of the nation's industrial strength.

The October 1983 AFL-CIO Convention in a resolution on International Trade and Investment expressed its strong opposition to further tariff cuts and opposed the granting of Presidential authority to negotiate such cuts. This opposition was reinforced by the AFL-CIO Executive Council in February of this year in a statement which said in part: ". . . The AFL-CIO reiterates its opposition to Administration requests for tariff-cutting authority. Proposals to eliminate duties on semi-conductors or establish a free trade area with other nations will only serve to increase imports and further damage U.S. industry."

Second, there are numerous potential problems that are specific to such an agreement between the U.S. and Israel. As I am sure this Subcommittee knows, Israel already enjoys privileged access to the U.S. market through its participation in the GSP program. The AFL-CIO has presented its views on this program many times in the past. We have expressed concern over the inadequacy of GSP provisions designed to provide minimal protection to import-sensitive industries and made suggestions to strengthen those safeguards. The establishment of a free-trade area would eliminate the little protection import-sensitive industries currently have under GSP. In fact, it is our understanding that this is one of the principal reasons the Israeli government is seeking such an agreement. They are apparently concerned that the preferential access granted them is too limited and inhibits their exports to the U.S. in a wide variety of products. Industries that might be affected through the elimination of duties include: Sophisticated medical equipment, and engine parts and aircraft parts, jewelry, glass, various types of machinery and electrical equipment, textiles and apparel, and footwear and leather products. Many of these industries have already been recognized by Congress as being import sensitive and are experiencing high levels of unemployment. Completion of this agreement would only contribute to their difficulties. The Israelis themselves acknowledge that this agreement would provide a tremendous boost for their exports. In the February 28th edition of the Journal of Commerce, Rami Gutt, director general of the Export Institute of Israel was quoted as saying: "The free trade area can double our exports to the U.S. If at present, 20 percent of our exports go to the U.S. and 60 percent to the Common Market, those to the U.S. will increase to 40 percent, while the Common Market will buy only 45 percent." Mr. Gutt also stated: "Although our emphasis will remain on high technological items, for we see our future in this field, there will be a definite upsurge in consumer goods which, unlike industrial goods, at present face high customs duties in the U.S."

We are told, however, that this agreement would be mutually beneficial in that it would also ensure access to the Israeli market for U.S. exports. We believe that duty-free access to the $8 billion Israeli market in no way matches the benefit of unfettered access to the $3 trillion U.S. market. Announced measures of the Israeli Finance Ministry to address their balance of payments problems by increasing exports and reducing imports makes expectations of larger U.S. exports unrealistic at best. Further, it is difficult to understand how acknowledged Israeli governmental practices of industrial targeting, subsidization and state-owned enterprises fit in the concept of a free-trade area. While these policies are a proper and justifiable expression of Israel's domestic political and economic concerns, there is no reason for the U.S. to believe that trade will take place between the two countries on the model of Adam Smith.

It should also be remembered despite the poor state of the Israeli economy, unemployment there is far below the 7.8 percent rate in the U.S.

The close relationship that we have historically had with Israel, emphasized earlier in our testimony, has made our opposition to a U.S.-Israeli free-trade area particularly difficult. However, we strongly believe that such a proposal will not be to the mutual benefit of the two countries. A weakened, ineffectual United States is not going to be a helpful ally to Israel. Progress toward our common goals of freedom, democracy, and economic security will be better served by the reindustrialization of America.

Attachment one

FRIENDSHIP, COMMERCE, AND NAVIGATION AND SIMILAR TREATIES OR OTHER INTERNATIONAL AGREEMENTS IN FORCE IN WHOLE OR IN MAJOR PART

Argentina

Treaty of friendship, commerce and navigation. Signed at San Jose July 27, 1853. Entered into force December 20, 1854. 10 Stat. 1005; TS 4; 5 Bevans 61.

Austria

Treaty of friendship, commerce and consular rights. Signed at Vienna June 19, 1928. Entered into force May 27, 1931. 47 Stat. 1876; TS 838; 5 Bevans 341; 118 LNTS 241.

Supplementary agreement to the treaty of friendship, commerce and consular rights of June 19, 1928. Signed at Vienna January 20, 1931. Entered into force May 27, 1931. 47 Stat. 1899; TS 839; 5 Bevans 372; 118 LNTS 259.

Belgium

Treaty of friendship, establishment and navigation. Signed at Brussels February 21, 1961. Entered into force October 3, 1963. 14 UST 1284; TIAS 5432; 480 UNTS 149.

Bolivia

Treaty of peace, friendship, commerce and navigation.[1,2] Signed at La Paz May 13, 1858. Entered into force November 9, 1862. 12 Stat. 1003; TS 32; 5 Bevans 721.

Brunei

Treaty of peace, friendship, commerce and navigation. Signed at Brunei June 23, 1850. Entered into force July 11, 1853. 10 Stat. 909; TS 33; 5 Bevans 1080.

Colombia

Treaty of peace, amity, navigation and commerce, with additional article.[3] Signed at Bogota December 12, 1846. Entered into force June 10, 1848. 9 Stat. 881; TS 54; 6 Bevans 868.

Costa Rica

Treaty of friendship, commerce and navigation. Signed at Washington July 10, 1851. Entered into force May 26, 1852. 10 Stat. 916; TS 62; 6 Bevans 1013.

Denmark

Treaty of friendship, commerce and navigation, with protocol and minutes of interpretation.[4] Signed at Copenhagen October 1, 1951. Entered into force July 30, 1961. 12 UST 908; TIAS 4797; 421 UNTS 105.

Estonia

Treaty of friendship, commerce and consular rights, and protocol.[5,6] Signed at Washington December 23, 1925. Entered into force May 22, 1926. 44 Stat. 2379; TS 736; 7 Bevans 620; 50 LNTS 13.

Ethiopia

Treaty of amity and economic relations, and related notes. Signed at Addis Ababa September 7, 1951. Entered into force October 8, 1953. 4 UST 2134; TIAS 2864; 206 UNTS 41.

Agreement amending the treaty of amity and economic relations of September 7, 1951, to terminate notes concerning administration of justice. Exchange of notes at Addis Ababa September 16, 1965, and October 20, 1972. Entered into force May 3, 1973. 24 UST 2136; TIAS 7726.

Finland

Treaty of friendship, commerce, and consular rights, and protocol. Signed at Washington February 13, 1934. Entered into force August 10, 1934. 49 Stat. 2659; TS 868; 7 Bevans 718; 152 LNTS 45.

Protocol modifying article IV of the treaty of friendship, commerce, and consular rights of February 13, 1934. Signed at Washington December 4, 1952. Entered into force September 24, 1953. 4 UST 2047; TIAS 2861; 205 UNTS 149.

France

Convention of navigation and commerce, with separate article.[7] Signed at Washington June 24, 1822. Entered into force February 12, 1823. 8 Stat. 278; TS 87; 7 Bevans 822.

Agreement modifying the provisions of article VII of the convention of navigation and commerce of June 24, 1822. Signed at Washington July 17, 1919. Entered into force January 10, 1921. 41 Stat. 1723; TS 650; 7 Bevans 899.

Convention of establishment, protocol, and declaration. Signed at Paris November 25, 1959. Entered into force December 21, 1960. 11 UST 2398; TIAS 4625; 401 UNTS 75.

Germany, Federal Republic of

Treaty of friendship, commerce and navigation, with protocol and exchanges of notes.[8] Signed at Washington October 29, 1954. Entered into force July 14, 1956. 7 UST 1839; TIAS 3593; 273 UNTS 3.

Greece

Treaty of friendship, commerce and navigation. Signed at Athens August 3, 1951. Entered into force October 13, 1954. 5 UST 1829; TIAS 3057; 224 UNTS 279.

Honduras

Treaty of friendship, commerce and consular rights.[9] Signed at Tegucigalpa December 7, 1927. Entered into force July 19, 1928. 45 Stat. 2618; TS 764; 8 Bevans 905; 87 LNTS 421.

India

Convention to regulate commerce (art. III) between the United States and the United Kingdom. Signed at London July 3, 1815. Entered into force July 3, 1815. 8 Stat. 228; TS 110; 12 Bevans 49.

Iran

Treaty of amity, economic relations, and consular rights. Signed at Tehran August 15, 1955. Entered into force June 16, 1957. 8 UST 899; TIAS 3853; 284 UNTS 93.

Iraq

Treaty of commerce and navigation. Signed at Baghdad December 3, 1938. Entered into force June 19, 1940. 54 Stat. 1790; TS 960; 9 Bevans 7; 203 LNTS 107.

Ireland

Treaty of friendship, commerce and navigation, with protocol. Signed at Dublin January 21, 1950. Entered into force September 14, 1950. 1 UST 785; TIAS 2155; 206 UNTS 269.

Israel

Treaty of friendship, commerce and navigation, with protocol and exchange of notes. Signed at Washington August 23, 1951. Entered into force April 3, 1954. 5 UST 550; TIAS 2948; 219 UNTS 237.

Italy

Treaty of friendship, commerce and navigation, protocol, additional protocol, and exchange of notes. Signed at Rome February 2, 1948. Entered into force July 26, 1949. 63 Stat. 2255; TIAS 1965; 9 Bevans 261; 79 UNTS 171.

Agreement supplementing the treaty of friendship, commerce and navigation signed February 2, 1948. Signed at Washington September 26, 1951. Entered into force March 2, 1961. 12 UST 131; TIAS 4685; 404 UNTS 326.

Japan

Treaty of friendship, commerce and navigation, protocol, and exchange of notes August 29, 1953. Signed at Tokyo April 2, 1953. Entered into force October 30, 1953. 4 UST 2063; TIAS 2863; 206 UNTS 143.

Korea

Treaty of frierdship, commerce and navigation, with protocol. Signed at Seoul November 28, 1956. Entered into force November 7, 1957. 8 UST 2217; TIAS 3947; 302 UNTS 281.

Latvia

Treaty of friendship, commerce and consular rights.[5,10] Signed at Riga April 20, 1928. Entered into force July 25, 1928. 45 Stat. 2641; TS 765; 9 Bevans 531; 80 LNTS 35.

Liberia

Treaty of friendship, commerce and navigation. Signed at Monrovia August 8, 1938. Entered into force November 21, 1939. 54 Stat. 1739; TS 956; 9 Bevans 595; 201 LNTS 163.

Luxembourg

Treaty of friendship, establishment and navigation, and protocol. Signed at Luxembourg February 23, 1962. Entered into force March 28, 1963. 14 UST 251; TIAS 5306; 474 UNTS 3.

Madagascar

French convention of 1822 as modified in 1919 extended to Madagascar in 1896.

Malta

United Kingdom conventions applicable to Malta.

Morocco

Treaty of peace.[11] Signed at Meccanez September 16, 1836. Entered into force January

28, 1837. 8 Stat. 484; TS 244-2; 9 Bevans 1286.

Nepal

Agreement relating to friendship and commerce. Exchange of notes at Kathmandu April 25, 1947. Entered into force April 25, 1947. 61 Stat. 2566; TIAS 1585; 10 Bevans 1; 16 UNTS 97.

Netherlands

Treaty of friendship, commerce and navigation, with protocol and exchange of notes.[12] Signed at The Hague March 27, 1956. Entered into force December 5, 1957. 8 UST 2043; TIAS 3942; 285 UNTS 231.

Nicaragua

Treaty of friendship, commerce and navigation, and protocol. Signed at Managua January 21, 1956. Entered into force May 24, 1958. 9 UST 449; TIAS 4024; 367 UNTS 3.

Norway

Treaty of friendship, commerce and consular rights, with exchange of notes and an additional article.[3] Signed at Washington June 5, 1928. Entered into force September 13, 1932. 47 Stat. 2135; TS 852; 10 Bevans 481; 134 LNTS 81.

Oman

Treaty of amity, economic relations and consular rights and protocol. Signed at Salalah December 20, 1958. Entered into force June 11, 1960. 11 UST 1835; TIAS 4530; 380 UNTS 181.

Pakistan

Treaty of friendship and commerce, and protocol. Signed at Washington November 12, 1959. Entered into force February 12, 1961. 12 UST 110; TIAS 4683; 404 UNTS 259.

Paraguay

Treaty of friendship, commerce and navigation. Signed at Asuncion February 4, 1859. Entered into force March 7, 1860. 12 Stat. 1091; TS 272; 10 Bevans 888.

Saudi Arabia

Provisional agreement in regard to diplomatic and consular representation, juridical protection, commerce, and navigation. Signed at London November 7, 1933. Entered into force November 7, 1933. 48 Stat. 1826; EAS 53; 11 Bevans 456; 142 LNTS 329.

Spain

Treaty of friendship and general relations.[13,14] Signed at Madrid July 3, 1902. Entered into force April 14, 1903. 33 Stat. 2105; TS 422; 11 Bevans 628.

Suriname

Netherlands treaty of 1956 applies.

Switzerland

Convention of friendship, commerce and extradition.[15] Signed at Bern November 25, 1850. Entered into force November 8, 1855. 11 Stat. 587; TS 353; 11 Bevans 894.

Taiwan

Treaty of friendship, commerce and navigation, with protocol. Signed at Nanking November 4, 1946. Entered into force November 30, 1948. 63 Stat. 1299; TIAS 1871; 6 Bevans 761; 25 UNTS 69.

Thailand

Treaty of amity and economic relations. Signed at Bangkok May 29, 1966. Entered into force June 8, 1968. 19 UST 5843; TIAS 6540; 652 UNTS 253.

Togo

Treaty of amity and economic relations. Signed at Lome February 8, 1966. Entered into force February 5 1967. 18 UST 1; TIAS 6193; 680 UNTS 159.

Turkey

Treaty of commerce and navigation. Signed at Ankara October 1, 1929. Entered into force April 22, 1930. 46 Stat. 2743; TS 813; 11 Bevans 1122; 114 LNTS 499.

Treaty of establishment and sojourn. Signed at Ankara October 28, 1931. Entered into force February 15, 1933. 47 Stat. 2432; TS 859; 11 Bevans 1127; 138 LNTS 345.

United Kingdom

Convention to regulate commerce.[16] Signed at London July 3, 1815. Entered into force July 3, 1815. 8 Stat. 228; TS 110; 12 Bevans 49.

Convention continuing in force indefinitely the convention of July 3, 1815. Signed at London August 6, 1827. Entered into force April 2, 1828. 8 Stat. 361; TS 117; 12 Bevans 76.

Vietnam

Treaty of amity and economic relations.[17] Signed at Saigon April 3, 1961. Entered into force November 30, 1961. 12 UST 1703; TIAS 4890; 424 UNTS 137.

Yemen (Sanaa)

Agreement relating to friendship and commerce. Exchange of notes at Sanaa May 4, 1946. 60 Stat. 1782; TIAS 1535; 12 Bevans 1223; 4 UNTS 166.

Yugoslavia

Treaty of commerce.[7] Signed at Belgrade October 2/14, 1881. Entered into force November 15, 1882. 22 Stat. 963; TS 319; 12 Bevans 1227.

~~[1] An understanding was effected by exchanges of notes in 1946 that most-favored-nation provisions do not require extension of advantages accorded by the United States to the Philippines. TIAS [illegible]~~

[2] Art. 34 terminated by the United States, effective July 1, 1916, in accordance with the Seamen's Act (38 Stat. 1164).

[3] Art. 33 terminated by the United States, effective July 1, 1916, in accordance with the Seamen's Act (38 Stat. 1164).

[4] Applicable to all Danish territories except Greenland, and to all territories over which the United States has juridiction or international responsibility except the Trust Territory of the Pacific Islands.

[5] The United States has not recognized the incorporation of Estonia and Latvia into the Union of Soviet Socialist Republics. The Department of State regards treaties between the United States and those countries as continuing in force.

[6] Application of controls to trade between the United States and Estonia while that country is under Soviet domination or control was acquiesced in by the Acting Consul General of Estonia in Charge of the Estonian Legation in New York in a note dated July 16, 1951, to the Secretary of State.

[7] Art. 6 terminated by the United States, effective July 1, 1916, in accordance with the Seamen's Act (38 Stat. 1164).

[8] Applicable to Land Berlin.

[9] Provisions which are inconsistent with the trade agreement of December 18, 1935 (49 Stat. 3851; EAS 86), are replaced by that agreement.

[10] Application of controls to trade between the United States and Latvia while that country is under Soviet domination or control was acquiesced in by the Charge d'Affaires of Latvia in Washington in a note dated July 11, 1951, to the Secretary of State.

[11] Extraterritorial jurisdiction in Morocco relinquished by the United States October 6, 1956.

[12] Applicable to the Netherlands Antilles, and to all territories over which the United States has jurisdiction or international responsibility except the Trust Territory of Pacific Islands.

[13] Applicable to all territories.

[14] Notice of termination was given by the United States of arts. XXIII and XXIV, effective July 1, 1916, in accordance with the Seamen's Act (38 Stat. 1164). The notice was accepted by the Spanish Government with the understanding that only such provisions of these articles as were in conflict with the Act should be terminated, and all other provisions, especially those concerning the arrest, detention, and imprisonment of deserters from war vessels, should continue in force; also on the understanding that United States consuls in Spain should not exercise the powers of which Spanish consuls in the United States were deprived by the provisions of the Act.

[15] Arts. 8-12 terminated March 23, 1900, as a result of notice given by the United States on March 23, 1899; arts. 13-17 relating to extradition were superseded and expressly repealed by the extradition treaty signed May 14, 1900 (31 Stat. 1928; TS 354; 11 Bevans 904).

[16] Art. IV superseded from September 7, 1952, by consular convention of June 6, 1951 (3 UST 3426; TIAS 2494), including territories to which consular convention applies.

[17] This agreement was in force between the United States and the Republic of Vietnam (South Vietnam). The status of the agreement is under review by the United States.

DEPARTMENT OF STATE PUBLICATION 9173
Department and Foreign Service Series 222
Office of the Assistant Legal Adviser for Treaty Affairs

Revised
1984

Attachment two

EXECUTIVE AGREEMENT SERIES, No. 53

DIPLOMATIC AND CONSULAR REPRESENTATION, JURIDICAL PROTECTION, COMMERCE AND NAVIGATION

PROVISIONAL AGREEMENT BETWEEN THE UNITED STATES OF AMERICA AND THE KINGDOM OF SAUDI ARABIA

Signed November 7, 1933

DEPARTMENT OF STATE · UNITED STATES OF AMERICA

UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1933

For sale by the Superintendent of Documents, Washington, D.C. - - - - - - - - Price 5 cents

PROVISIONAL AGREEMENT BETWEEN THE UNITED STATES OF AMERICA AND THE KINGDOM OF SAUDI ARABIA IN REGARD TO DIPLOMATIC AND CONSULAR REPRESENTATION, JURIDICAL PROTECTION, COMMERCE AND NAVIGATION.[1]

The Undersigned,

Mr. Robert Worth Bingham, Ambassador Extraordinary and Plenipotentiary of the United States of America at London, and Sheikh Hafiz Wahba, Minister of the Kingdom of Saudi Arabia at London, desiring to confirm and make a record of the understanding which they have reached in the course of recent conversations in the names of their respective Governments in regard to diplomatic and consular representation, juridical protection, commerce and navigation, have signed this Provisional Agreement:

ARTICLE I.

The diplomatic representatives of each country shall enjoy in the territories of the other the privileges and immunities derived from generally recognized international law. The consular representatives of each country, duly provided with exequatur, will be permitted to reside in the territories of the other in the places wherein consular representatives are by local laws permitted to reside; they shall enjoy the honorary privileges and the immunities accorded to such officers by general international usage; and they shall not be treated in a manner less favorable than similar officers of any other foreign country.

ARTICLE II.

Subjects of His Majesty the King of the Kingdom of Saudi Arabia in the United States of America, its territories and possessions, and nationals of the United States of America, its territories and possessions, in the Kingdom of Saudi Arabia shall be received and treated in accordance with the requirements and practices of generally recognized international law. In respect of their persons, possessions and rights, they shall enjoy the fullest protection of the laws and authorities of the country, and they shall not be treated in regard to their persons, property, rights and interests, in any manner less favorable than the nationals of any other foreign country.

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[1] Arabic text not printed.

ARTICLE III.

In respect of import, export and other duties and charges affecting commerce and navigation, as well as in respect of transit, warehousing and other facilities, the United States of America, its territories and possessions, will accord to the Kingdom of Saudi Arabia, and the Kingdom of Saudi Arabia will accord to the United States of America, its territories and possessions, unconditional most-favored-nation treatment. Every concession with respect to any duty, charge or regulation affecting commerce or navigation now accorded or that may hereafter be accorded by the United States of America, its territories and possessions, or by the Kingdom of Saudi Arabia to any foreign country will become immediately applicable without request and without compensation to the commerce and navigation of the Kingdom of Saudi Arabia and of the United States of America, its territories and possessions, respectively.

ARTICLE IV.

The stipulations of this Agreement shall not extend to the treatment which is accorded by the United States of America to the commerce of Cuba under the provisions of the Commercial Convention concluded between the United States and Cuba on December 11, 1902, or the provisions of any other commercial convention which hereafter may be concluded between the United States of America and Cuba. Such stipulations, moreover, shall not extend to the treatment which is accorded to the commerce between the United States of America and the Panama Canal Zone or any of the dependencies of the United States of America or to the commerce of the dependencies of the United States of America with one another under existing or future laws.

Nothing in this Agreement shall be construed as a limitation of the right of either Government to impose, on such terms as it may see fit, prohibitions or restrictions of a sanitary character designed to protect human, animal, or plant life, or regulations for the enforcement of police or revenue laws.

Nothing in this Agreement shall be construed to affect existing statutes of either country in relation to the immigration of aliens or the right of either Government to enact such statutes.

ARTICLE V.

The present stipulations shall become operative on the day of signature hereof and shall remain respectively in effect until the entry in force of a definitive treaty of commerce and navigation, or until thirty days after notice of their termination shall have been given by the Government of either country, but should the Government of the

United States of America be prevented by future action of its legislature from carrying out the terms of these stipulations, the obligations thereof shall thereupon lapse.

ARTICLE VI.

The English and Arabic texts of the present agreement shall be of equal validity.

Signed at London this seventh day of November, one thousand nine hundred and thirty-three.

ROBERT WORTH BINGHAM [SEAL]
[Signature and seal of SHEIKH HAFIZ WAHBA]

Chairman GIBBONS. Thank you, Mr. Koplan. Your testimony will be reviewed in total by me and also the matters that you have attached thereto and of course all the attachments will be a part of the record.

I was aware that we had various of these treaties and I think that they are manageable and we can handle this problem. It is not my intention to allow other countries to unilaterally or even bilaterally automatically claim the benefit that will flow from this treaty. It will be a matter of negotiation, if at all.

So I want to relieve your concern that this member and hopefully in any legislation that passes will not provide an automatic free ride just because we negotiate something with the Israelis.

Mr. KOPLAN. I appreciate that, Mr. Chairman, and I know you made that statement earlier in the hearing.

My comment is simply that by providing a list of the treaties, I think that it is imperative that the subcommittee examine them to see what number of countries we have such clauses with in these treaties, because certainly I understand that the Congress can abrogate any of those treaties that are in existence, but I think that there should be an awareness of the full extent of the potential problem because of existing treaties that date back to the 1920's.

Chairman GIBBONS. Well, we do not intend to renege on any of our commitments nor do we intend to allow the dead hand of the past to control our future. It is about the best way I can state it right now.

Certainly we want to take into consideration the vital interests that you have in this.

Mr. Thomas.

Mr. THOMAS. Thank you, Mr. Chairman.

Mr. Koplan, I don't want to go back and reiterate the recent history of the agriculture labor movement in California, but I think for people's benefit, they need to know that California has passed an Agriculture Labor Relations Act under which virtually all of the basic and fundamental labor management problems have been not put to rest, but at least provided with a mechanism in which they can be resolved.

I was especially intrigued on the previous panel's testimony and in response to questions to find that 65 to 70 percent of the agricultural products produced in Israel are produced on kibbutzes which don't pay any wages.

I was wondering if there would be any reaction on your part in terms of the significance that this might have to the American labor movement and specifically a group like the United Farm Workers of AFL-CIO on their reaction to the suggestion that we are talking about setting up a free trade area with a country that provides 65 to 70 percent of its agricultural products from a system in which no wages are paid at all for the production of that particular product.

Mr. KOPLAN. Mr. Anderson is indicating he would like to respond to that.

Mr. ANDERSON. Congressman, I think you raise a very valid issue but I think insofar as the AFL-CIO is concerned, we certainly are not here in a position to comment on the economic or political structure of Israel.

Mr. THOMAS. I want you to comment on the economic and political structure in California.

Mr. ANDERSON. Here in the United States, yes. We feel strongly the Israelis are very much in a position to determine their own fate in that area. We feel strongly that many of our people feel it is a very laudible and useful system.

The concern we have is when those practices in another country impact directly on our economic system and our trade system here.

I think in our prepared statement the notion that these practices would somehow fit into a free trade area does not make an awful lot of sense to us.

Mr. THOMAS. I certainly am not commenting for purposes of trying to influence any internal structure that the Israeli people want to follow for whatever kind of economic practices they want to engage in.

My problem is—and I have to go back to my people, workers and producers, and attempt to explain to them why it is to their advantage that we enter into this free trade arrangement with Israel. These are the kinds of questions they ask me.

Frankly, I have not been able to provide the kind of answers I am usually able to provide other areas when they ask me questions. So I am taking this opportunity, and the chairman has kindly allowed me to take this opportunity, although I am not a member of the subcommittee, to ask others who are in a position to comment on this proposed legislation what their reaction might be.

My feeling is that there would be some discussion among some of the labor union folk in California dealing with agricultural farm labor wanting to know what the impact in terms of the cost of the product on the shelf, the question of subsidies whether or not the United States is going to consider these as part of the complete examination of potential upside-downside of any kind of free trade area.

I just want to be sure that people have a concern to the point that these are items that are discussed.

Mr. ANDERSON. If I might add one further thought, Congressman, the concern that we have is not how that impact is necessarily arrived at; we are concerned about the potential negative impact whether it deals with wages or any other issue.

I should mention that even in the sectors of the Israeli economy where wages are in fact paid—I say this in light of the previous comment by someone who indicated it was a relatively high-paid industry in Israel—I don't have the current figures but I suspect in current dollar terms, the average manufacturing wage in Israel is less than $4 an hour as compared to $8.50 to $9 an hour here, and given devaluations of their currencies and whatnot. So we are in fact dealing with a relatively low-wage economy.

Mr. THOMAS. We are dealing with an economy then based on the figures you indicated to me, that in the industrial sector reflect what is roughly paid in some of the agricultural sectors in the United States and that in fact in the agricultural sector there is no comparison because they don't pay wages.

Mr. ANDERSON. I think that is a fair estimation, Congressman.

Mr. THOMAS. Thank you, Mr. Chairman.

Chairman GIBBONS. Mr. Frenzel.

Mr. FRENZEL. I want to thank the witnesses for their testimony and to suggest that on page 5, you are comparing an $8 billion Israeli market to a $3 trillion U.S. market. I think you are taking an import market and comparing it to a GNP which is comparing a goat to a three-humped camel, I think.

I think you have to scale down the U.S. share there a little bit.

Mr. ANDERSON. I appreciate your pointing that out. We promise you to upscale what the GDP is for Israel.

Mr. FRENZEL. Thank you very much.

Chairman GIBBONS. I want to make the record clear here. None of this bill will waive any of the provisions of our fair trade practice laws that we have and those we may put on the books. The administration has no authority to change the injury test or to waive injury in a matter such as this or to waive any dumping or subsidies or things of that sort, any more than we do for all other nations nor the remedies sections which we have in escape clause provisions in the current law.

I just say that because I don't want the record to reflect that we are going to stand naked in this negotiation. We are going to negotiate a mutually advantageous agreement to both sides and that is what the Downey legislation is aimed at.

Mr. KOPLAN. We don't claim otherwise, Mr. Chairman.

As we emphasized in the prepared statement, our concerns center on the fact, for example, that items which are import sensitive under the generalized system of preferences or such things as the competitive need limits of GSP or those items on the import-sensitive list that STR comes up with under GSP, those things would not apply to such an agreement.

Of course, Israel now ranks seventh on the GSP list.

Chairman GIBBONS. As you know, GSP is about to expire, and I don't see any great groundswell of support for extending it.

I would assume that you wouldn't want us to extend it.

Mr. KOPLAN. As a matter of fact, we have already appeared and testified on that, Mr. Chairman, yes.

Chairman GIBBONS. Well, this concludes our hearings for today.

We will announce hearings as soon as we can determine there is time available for witnesses who have requested to appear, and we are going to do it as soon as possible in June because I realize the time is getting short.

Thank you very much.

[Whereupon, at 12:13 p.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

PROPOSED UNITED STATES-ISRAEL FREE TRADE AREA

WEDNESDAY, JUNE 13, 1984

House of Representatives,
Committee on Ways and Means,
Subcommittee on Trade,
Washington, DC.

The subcommittee met at 9:05 a.m., pursuant to notice, in room B-318, Rayburn House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

Chairman Gibbons. Good morning, ladies and gentlemen. I want to welcome each and every one of you to this hearing this morning concerning the grant of authority to the President to negotiate with the Government of Israel a two-way reciprocal free trade area between the two countries.

We have been asked to do this by the Government of Israel. We are responding to that request, and we are responding as expeditiously as possible. We plan to have a markup of this legislation a little later on this month, to try to make progress very rapidly, and we also plan to visit the country of Israel and to look at the situation there firsthand. We hope that we can complete action on this legislation this year.

I want to particularly welcome the chief sponsor of this legislation, Mr. Downey, this morning. He is going to preside shortly, because I am involved in a tax conference. If you are interested in this legislation, we urge you to come forward and speak your piece.

Now, our first witness this morning is our colleague from California, Mr. Norman Shumway. Mr. Shumway, we welcome you here and you may proceed as you wish.

STATEMENT OF HON. NORMAN D. SHUMWAY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. Shumway. Thank you, Mr. Chairman. I want to assure the committee that these empty seats on either side of me do not indicate a lack of interest.

Chairman Gibbons. I know they don't because we have been contacted by most of those members personally.

Mr. Shumway. This bill, of course, will have an impact on all of us in California. There are many, many people who have expressed a great deal of interest in it.

I appreciate the opportunity to appear before the subcommittee this morning to offer my views on H.R. 5377, a bill to authorize the President to enter into and implement a free trade agreement with

Israel. While I am certainly in agreement with the underlying premise of this legislative proposal—to foster the longstanding American commitment to liberalize international trade practices—I am concerned that this particular bill may adversely impact certain domestic horticultural commodities in California, such as tomato products, for several reasons.

First, imported horticultural products have already made significant inroads into the domestic market. Israel, for example, enjoys a highly favorable horticultural trade balance with the United States. Indeed, in 1933, Israel exported approximately 85 percent of its processed tomato production to the United States. The most recent figures indicate that, between January and November 1983, the U.S. exported 7.3 million dollars' worth of horticultural products to Israel and imported 34.5 million dollars' worth of such products from Israel.

Furthermore, some Israeli horticultural products are highly subsidized as evidenced by the 27-percent countervailing duty on roses to offset subsidies received by Israeli producers. More important, Israel is not a signatory nation to GATT. As you know, under the framework of GATT, the world's trading nations have negotiated a series of international agreements to reduce trade barriers and to establish rules for limiting protectionist measures. GATT's system of rules and procedures allows governments to provide temporary relief to domestic producers facing a sudden and injurious increase in competitive pressure from imports. A temporary restriction in imports. A temporary restriction of imports can be largely imposed for the purpose of assisting the adjustment of a domestic industry, even in the absence of any violation of international trade rules by the foreign exporter. Unlike the United States, Israel is not a signatory to GATT and thus is not bound by that system's rules. Consequently, if Israel were granted duty-free status as proposed, and such alteration of existing trade policy causes serious injury to domestic producers, as I believe certainly will be the case, the latter's only mechanism for recourse would be an action filed pursuant to section 201 of the Trade Act of 1974, and certainly that is a more costly and time-consuming procedure and it imposes a far more stringent burden of proof on the petitioner to prove injury and adequate relief is simply not available through that system.

Moreover, Israel is already afforded tariff breaks under the GSP program and receives substantial foreign aid from the United States. In fact, more Israeli horticultural products to the United States are eligible for GSP status. In addition, Israel, while enjoying substantial tariff advantages under GSP, can always petition for additional duty-free exports to the United States under the GSP program as do other nations. On the other hand, the processed tomato industry in the United States has never been or is now the beneficiary of direct or indirect Federal subsidization.

In conclusion, while I will continue to be an active proponent of more liberalized international trade based on mutually beneficial market expansion, I do object to competition where it is likely that foreign processors are directly or indirectly subsidized by their governments. This is not free trade in the purest sense and violates the spirit of the principle.

Let me just add, Mr. Chairman, that I don't think that I have to establish my credentials as a proponent of the free trade philosophy before this committee. But at the same time I think there need to be some restraints, and I am sure that is why we have a system of tariffs and quotas in this country, and I think that this is a case that falls within that system.

We have here an established industry, and I am talking now about the tomato industry in California. It is an industry that has not suffered any degree of decline. It is modern, it is efficient, it has provided for the consuming needs of America for many years, and at the same time now we have a foreign source which is developing, a source which has very clearly targeted the United States for its exports, 85 percent of that market has come into this country, and by the way, Israel is using U.S. seeds, technology, using our harvesters, our processing equipment, and they want more, and in the process I believe, Mr. Chairman, they will displace much of the activity which is now occurring in the San Joaquin Valley and which is vital to California's economy.

In that valley I am sure I don't need to remind members of the subcommittee during many months of the year unemployment surges above 20 percent, and if we are going to displace the tomato growers and tomato processors in the San Joaquin Valley, we are simply going to add to that problem in a way that none of us want. I think there can be no doubt about the potential for market displacement.

I would simply suggest, Mr. Chairman, that this is not the time for substantial trade concessions to Israel, and I would hope that this legislation would not be approved by the subcommittee.

Chairman GIBBONS. Norm, I know of your credentials, and I have a great deal of respect for you. I want to assure you that if your people can compete without subsidies, I assume that they can compete without the benefit of subsidies, there is nothing in this legislation that would deny any American producer or their affiliated labor unions the right to get an offsetting countervailing duty against any subsidy that is injuring them.

In fact, it has been the whole thrust of the work of this committee for the last year to try to make our countervailing duty laws even more effective than they have been.

I have tomato producers in my area too, and I am interested in them not being unfairly competed with. In your opinion, can the tomato producers of the San Joaquin Valley compete with the Israeli tomato producers if we have a level playing field as far as subsidies are concerned?

Mr. SHUMWAY. I think, Mr. Chairman, that the producers in that valley can compete with anyone in the world, if indeed it is a level playing field. I have a great deal of confidence in their ability. It is an efficient, clean, highly sophisticated system of agriculture that I am frankly very proud of.

Chairman GIBBONS. Yes.

Mr. SHUMWAY. But at the same time it seems to me that we have a system in place that is going to be seriously hampered now by the vote that is envisioned by this bill. Rather than coming in and trying to cure the defect later by some kind of remedy, as the chairman has suggested, it seems to me that the better course of action would be to not invite that kind of tilt to the playing field now.

We have a good supply, a good efficient agricultural business in California, and no doubt in Florida and in other States, and I simply hate to see it disrupted as it certainly would be by this kind of a trade agreement.

Chairman **Gibbons**. I am sure your tomato producers, like my tomato producers, have to worry about the Mexican competition.

Mr. **Shumway**. That is correct.

Chairman **Gibbons**. And they have to worry about what perhaps would come out of the Caribbean Basin Initiative. I am very sensitive to the problems of these people, and all that I ask them to do is to compete on a level playing field. I don't want to tilt the playing field even temporarily, but my reading of this legislation is that all of the remedies that are available to people now to fight subsidies, plus those that I hope we can enact in the law before this Congress adjourns this year to provide greater protection or greater fairness in leveling the playing field, will remain available. I hope that you will take that message to your producers in the San Joaquin Valley

We are very dependent upon them. We don't intend to destroy them. As you say, most of the products are coming in now under the GSP exemption, and I don't think that they would be any worse off than they are now.

Mr. Thomas is here now. Let's hear from Mr. Thomas, and then we will go on to the general discussion. Mr. Thomas is a member of our Ways and Means Committee, a hard-working and distinguished member of it. We welcome you here, Bill. You and I have discussed these matters before. We would like to hear from you.

STATEMENT OF HON. WILLIAM M. THOMAS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. **Thomas**. Thank you very much, Mr. Chairman. We have discussed them before. I have a very strong feeling, and it's much more than a feeling. I want to present to you some very specific and cold facts and discuss not only in a broader sense this United States-Israel free trade area but also in a very specific sense this discussion of a level playing field.

I do want to thank the subcommittee for the continuing opportunities to testify on what I think is a very important question. Recognizing that we are pressed for time, I ask unanimous consent that my full statement be recorded in the record.

Chairman **Gibbons**. Yes; your statement and those of other witnesses today will all be placed in the record.

Mr. **Thomas**. Before really getting it, though, I want to clarify my position. I do not oppose a better trading relationship with Israel. I am concerned about the treatment of import-sensitive products and how the United States structures its first free trade area.

It seems clear to California agriculture that this is not likely to be the last free trade area discussed by the United States. If we are going to rely on free trade areas, California agriculture wants to make sure that the precedents set by this proposal covers specific problems. With this in mind I want to talk about five matters that I think have to be resolved in the authorization for this free trade area.

First, the free trade area benefit should not be allowed to spill over to countries not having such arrangements with the United States. The United States could, if this agreement does not comply with the General Agreement on Tariffs and Trade, be forced to extend the benefits we grant to Israel to other trading partners. Further, the United States is a party to several friendship, navigation, and commerce treaties which contain unconditional most favored nation clauses.

Rather than lose the use of our duties and nontariff arrangements as trading stock for future negotiations in the international arena, we ought to restrict access to the benefits we grant to Israel and Israel alone.

Second, transshipment of products must be prevented. I urge that strong controls on transshipped goods be placed into a free trade area legislation. We have, for example, found that Israel recently exported pistachios and raisins to the United States even though Israel does not appear to be a significant producer of either item.

Without strong controls on brokerage, commission agent activity, and transshipment, the United States will be giving away free trade area benefits again. I hope the subcommittee will include strong local content restrictions and certification procedure requirements in legislation that you develop.

Third, the United States should not agree to any tariff or nontariff barrier reductions for subsidized or dumped products. In fact, we should proceed with the free trade area only after we have completed a thorough study of subsidies proposed free trade area partners may employ. Recognizing that Ambassador Brock is sensitive to export subsidies, I want to point out that Californians have also expressed concerns about value-added tax, ocean shipping rates, and Government-funded marketing agricultural cooperation as well as Government subsidies that we talked about in an earlier subcommittee hearing.

Subsidies in these areas should be eliminated or at least mitigated before free trade area benefits are extended. It will prove difficult, if not impossible, to eliminate subsidies after an agreement is already in place. It would be especially imprudent in my opinion to allow subsidized specialty crops to enter the United States and then force U.S. producers to try to remove them through unfair trade practice complaints.

Fourth, the United States should not allow free trade areas to absorb products displaced by trade disputes. Some kind of emergency volume controls have to be installed in the agreement. With respect to this free trade area, we already have reason to be concerned. As we know, Spain and Portugal are scheduled to accede to the European Community membership sometime in the near future.

Spain, Portugal, and Israel export many of the same horticultural products to the EEC. Whether they are backed out of the market because Spanish and Portuguese will be duty-free after a concession or because they are to protect Mediterranean growers inside the EC, the United States should not have to absorb displaced Israel goods. If we do accept this or foreign products, revenues from our markets will cushion trade impact disputes that ought to fall on the Community, not on just the farmers producing those goods.

Fifth, adequate safeguard mechanisms must be in place before we grant any duty-free or other trade benefits. Obviously a joint council empowered to provide prompt binding settlement of trade disputes is needed. Beyond that, the sensitivity of horticultural products makes it imperative that we have a fast track relief mechanism available to U.S. farmers.

The Caribbean Basin Economic Recovery Act fast track provisions are a useful starting point, but I would suggest that they be expanded to provide interim relief in subsidy and dumping cases and that these procedures be made available to farm product processors because both processors and producers are extremely sensitive to large inventories that may develop as a result of an unfair trade practice.

Last, we need to deal with product coverage. California agriculture groups are very concerned about product coverage because Israel is a strong horticultural product exporter. Items such as tomatoes, sauces and paste, processed tomatoes, black olives, citrus, dehydrated onions, and garlic, I believe, are extremely sensitive and I want to look at some numbers. I hope that the International Trade Commission report to Ambassador Brock, analyzing the impact of the free trade zone on certain domestic producers, will show that these items in particular are very sensitive.

Not only would it be wise to exclude these products in my opinion from coverage under the proposed free trade area, but we should consider preventing their inclusion in subsequent free trade areas the United States may develop. In fact, my full statement includes a list of specialty crops I would like to see excluded from free trade areas in general. These import sensitive commodities generally do not receive the benefits of USDA price support programs, and they are not expected to develop strong export markets in Israel, obviously.

In fact, Israel is already a formidable competitor. As Israeli acreage devoted to crops such as olives, avocados, and citrus already rivals California acreage. This information is attached to my full statement as attachment A. If you look at it briefly, for example in terms of grapefruit acreage, California has, according to the 1982 California fruit and nut acreage publication, a little over 23,000 acres.

Israel, according to the 1983 Israeli Statistical Abstract, has 22,700 acres. Ninety-seven percent of the grapefruit acreage in California is already in place in Israel. Olives; California has 35,000, down from a little over 40,000 several years ago, and declining. Israel has 32,700, 93 percent of the acreage of California already in permanent crops in olives in Israel.

Tomato products. Israel is already a strong exporter of these products. Tomato paste exports to the United States have grown at a compound rate of 42 percent since 1978. If you will take a look at appendix C, tomato paste imports from Israel, in 1980, were 314,000 metric tons. Today, 16,698,000. That is 12.6 percent of the market, but it is up from 1.2 percent of the market.

Tomato sauce, 1980, 1.2 million; 1983, 16.4 million, a gain of 69 percent. When you look at the increases, prepared tomato products, 1984, 0.1 million; 1983, 48.7 million. The Israelis have already established not just a foothold but a very comfortable market segment in the U.S. economy, based upon the subsidies that I have mentioned across the board that have already been available to them.

And when we discuss a level playing field, I want to make sure we understand what has occurred in the recent past, and not just assume that from this day on, we can talk about a level playing field, so that we can compete equally, because they have had a tremendous subsidy program in the recent past.

In fact, 85 percent of Israel's processed tomato products are exported to the United States. Even with duties, Israel still undersells the California product in spite of heavy investments that Californians have made to boost their growth and processing activity.

In terms of tomatoes especially we are talking about the exported technology which has made the Israeli tomato industry what it is today. They use our tomato varieties developed at the University of California at Davis. They use the same processing machines that we use. They have benefited significantly from our advance technology in drip irrigation, because the key problem with Israel, as it is in the Central Valley of California, is the availability of water. We apply water. We could grow roses, and we do in my district, as well as a number of various vegetables and fruits.

The Israelis do the same thing, but the thing we have to remember is that most of us still think of water in terms of massive acre-feet application, and clearly in that instance Israel would be at a disadvantage to the United States, but with recent drip technology where you have direct application you would multiply your acreage three- and four-fold with the same amount of water, a tremendous opportunity to stretch your water far beyond what we did before. Tomatoes are very sensitive in that area.

Olives are another excellent example. Israel's olive exports to the United States have grown at a compound rate of 45 percent a year since 1979, even with duties in place. When we talk about a level playing field with olives, we have to take a look at what has occurred with the subsidies prior to today, and not just assume that from today on, if we don't have any kind of a subsidy program in Israel, that they don't have an advantage.

We gave them an advantage in terms of a foothold in the marketplace, and in terms of black olives, the California black olive is a development of the California industry, but it isn't produced with some secret formula that no one else can copy. Most of Spain's production is in the green olive. Israel has moved in that direction, but depending upon where your market opportunities are, you can move green olive—black olive.

It isn't that difficult to move in. They have moved in significantly and even with the duties in place, because of the shipping advantage they have, they can put a 24-can medium-sized olive case in New York for $13 or $14 less than we can, and it means to the farmer about a $100 a ton difference today with duties in place.

Dehydrated onions and garlic, again much the same position. This is a relatively small industry and it is almost totally located in California, employes about 4,500 people. Israel's dehydrated onion and garlic output is small, but, again, if you look at the potential in terms of development in Israel, they have a tremendous expansion potential, and again, because of the advantages, they would quickly undersell the U.S. product.

I want to refer again to the International Trade Commission report, which is designed to give guidance to the President on import-sensitive products. I think we will find strong evidence that there are key products that will clearly be disadvantaged if we move to duty-free treatment. We also need to investigate Israeli subsidies which raise a number of questions about how comparative advantages available to farmers in both countries need to be dealt with.

There is, however, one last factor we ought to consider. Since 1976, olives, tomato products, dehydrated onions, and garlic and citrus have continuously been the subject of GSP requests by Israel. Very few grants of GSP benefits have been made. When you consider that 10 GSP benefits for dehydrated onion and garlic products have been denied or rejected for review since 1980, nearly 20 petitions concerning olives, including 5 by Israeli interests, have been rejected or denied during the same periods and that tomato products have like histories, surely we have a strong indication that products such as these are import sensitive and that they should be excluded from any new arrangement.

My full testimony includes a list of those agricultural products I believe to be sensitive, but when you examine what has occurred in terms of GSP and you go down the list in terms of olives, 1980–81, olives, review rejected; olives, other, review rejected; olives, prepared or preserved, review rejected; olives, in brine, rejected; olives, pitted and stuffed, rejected; and the same thing in terms of tomato paste and tomato sauces, over the past 5 years have simply rejected them outright in terms of the review or have been denied. They are very, very import sensitive.

What we are proposing to do in this free trade area with Israel is not just create a level playing field if we talk about focusing in on the subsidies. What we need to do is look at our recent history and realize that because of the subsidies that have been in place, Israel has been able to gain a strong foothold in all of these segments with the duties in place.

If you remove the duty, you give a clear unfair advantage to Israel in markets that have not grown significantly, in markets that Israel has captured a significant portion of the market and can only capture a greater portion of the market if we turn our backs on California specialty agriculture.

Thank you very much, Mr. Chairman.

Chairman GIBBONS. I want to thank you, sir.

[The prepared statement follows:]

STATEMENT OF HON. WILLIAM M. THOMAS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. Chairman, I want to thank you and other members of the subcommittee for this opportunity to comment on the proposed U.S.-Israel Free Trade Area. Free trade areas are a new approach to international trade as far as the United States is concerned; while they have played a major role in European trade, the United States has not seriously discussed such arrangements until very recently. Because it is a new approach, we should give careful attention to several policy considerations.

Before proceding, however, I want to make it absolutely clear that I am not opposing development of a free trade area between the United States and Israel or opposing the use of free trade areas in the future. I am concerned about the way in which free trade areas are established. My friends in California agriculture, particularly the producers and processors of specialty crops, share my concerns. In fact, I have contacted a number of producers and trade associations in California in an effort to obtain their views.

Our concern about this proposal stems from our perception that this is not likely to be the last free trade area the United States considers. In fact, we are aware the Administration supports a provision in the Senate Finance legislation on this matter which allows other free trade areas to be negotiated. While the U.S. is currently discussing Free Trade Areas with Israel and Canada, agriculture feels that other developing nations will also want to obtain free trade area agreements to demonstrate U.S. commitments to their development and to obtain favorable trade treatment. Nations such as Mexico, Brazil, and Chile come to mind as candidates. I am sure that other countries, such as Taiwan, Singapore and Hong Kong, will also watch the development of this proposal.

With this in mind, I want to discuss five matters I believe should be resolved in the authorization for this free trade area. I strongly believe that:

(1) Free Trade Area benefits should not be allowed to spill over to countries not having such arrangements with the United States;

(2) Transshipment of products must be prevented;

(3) The United States should not agree to any tariff or nontariff barrier reductions for subsidized or dumped products;

(4) The United States must not become the world's residual market as a result of free trade areas; and

(5) Adequate safeguard mechanisms must be in place before we grant any duty-free or other trade benefits.

I want to address each of these items in turn.

I am very disturbed by the possibility that Free Trade Area benefits may be extended to nations which have not entered binding trade agreements with the United States. I am particularly interested in ensuring that the U.S. avoid inadvertant extensions of duty-free treatment that might result from Most Favored Nation clauses contained in treaties to which we are a party. Recognizing that free trade areas are an exception to the MFN principle under the General Agreement on Tariffs and Trade and many other treaties we have signed, the United States must still be very cautious.

I understand that the Office of the U.S. Trade Representative is considering questions involving potential exemptions for products, safeguards and other considerations that may affect our compliance with treaty obligations. I hope the Subcommittee will ask for a full explanation of how exemptions and safeguards being considered by USTR will affect those obligations and make it clear that we must be consistent with our obligations. Absent that consistency, the United States will have to extend free trade area benefits to our other trading partners, such as the European Community, even though we are currently disputing their trade practices and seeking changes to the GATT and other agreements. An automatic extension of MFN benefits to these countries would mean the loss of valuable "trading stock" the United States will need to encourage changes in these practices and agreements.

Further, I understand the U.S. is a party to several agreements that do not contain a free trade area exception to those agreements' Most Favored Nation clauses. The free trade area authorization bill developed by the Senate Finance Committee includes a provision that would allow negotiations and Congressional consultation before we extend Most Favored Nation benefits under those treaties. I hope the Subcommittee will include that provision in all free trade area authorization bills it develops.

Second, the authorization should require strict controls to prevent transshipment of goods. Again, the point is to prevent others from benefiting from free trade areas without providing benefits to the United States. It must be clear that free trade area benefits are only available for goods which are substantially the product of our partner, and not for goods which are shipped through our partner from another nation, items which are handled by commission merchants, agents or brokers located within a partner's borders or for goods which are produced elsewhere and processed with only minor value additions made within a partner's borders.

I am extremely concerned about this because the Israel appears to be engaging in some transhipment already. In 1983, the United States imported 88,000 dollars worth of in-shell pistachios from Israel. Recent figures also show Israel exported a small amount of raisins in 1981, but has not exported this item since that time. Being unable to find evidence that Israel is a major producer of either item, I am concerned that these items may have been transshipped. I understand that Syria, Iran, Turkey and Italy are major pistachio producers, while raisins are produced in signficant amounts by Greece and Turkey. To obtain free trade area benefits, these nations should have to be forced to give the U.S. something in return.

I understand that the Trade Representative's office is aware of the potential abuses of free trade areas and that consideration is being given to rules of origin that will make transshipment difficult. However, there is some dispute as to whether the best approach is to rely on government certification, which I am told Israel favors, or on a system which makes the importers themselves responsible for identifying the source of the product. I understand an interagency group is assessing the approaches taken in the Generalized System of Preferences and Caribbean Basin Initiative procedures we already employ. Recognizing that Ambassador Brock wants to move forward with negotiations, it would be useful to have the Ambassador report to us on that group's findings so that recommendations can be incorporated in the negotiating authority.

Third, no duty-free treatment or other benefits should be extended to subsidized or dumped products. I am quite serious in recommending that the United States complete studies of subsidies available in individual nations such as Israel before we enter into negotiations. Once identified, subsidies must be eliminated before any free trade area benefits become available for the subsidized product. This should occur prior to negotiating because history indicates that unfair trade practices tend to be difficult if not impossible to eliminate once any kind of agreement is in place. In addition, waiting to challenge unfair trade practices until after an agreement is signed is also hard on U.S. industry, which will have to mount expensive, lengthy campaigns to eliminate these practices later. Let's be honest: the American tendency to adopt the baby "warts and all" and trying to remove the warts later simply has not panned out and will not where international trade is concerned.

Export-oriented Israeli subsidies have already been documented in at least one instance. A countervailing duty on Israeli cut flowers of 27.94% has already been imposed in response to a trade complaint brought by U.S. rose producers to offset subsidies bestowed under ten programs which include capital investment promotions, minimum price guarantees, government funding for the exclusive fresh cut flowers exporter, cash payments to growers for greenhouses, cash payments to fresh cut flower packing houses, cash payments from the Export Promotion Fund, fuel grants, and capital grants and long term loans given to the exclusive exporter. Studies conducted for the California Tomato Growers Association show similar subsidies affecting products of concern to them.

There are other subsidy mechanisms that should also be examined. For example, California farm groups have expressed concerns about possible subsidies that are not directly related to farm exports. Questions have been raised about Israel's subsidization of kibbutz operations, particularly concerns that Israel subsidizes wages, food and housing for kibbutzniks. I have also been informed that Israel provides preferential ocean shipping rates to its industries through government contracts and other mechanisms. Concerns have been raised as well about Israel's Value Added Tax, which would be repatriated to Israeli exporters while U.S. producers would continue to pay corporate and other U.S. income taxes, and Israel's central agricultural marketing cooperative, fifty percent of which I understand to be owned by the Israeli government. To the degree that these and other devices contribute to trading strength that is not based on comparative advantage, we should demand that they be eliminated or mitigated before any free trade area is established. To make it clear that ending subsidies is important to the United States, our concern should be firmly expressed in any extension of negotiating authority we pass.

I am told USTR is concerned about export subsidies and has already informed Israel both that export subsidies must be eliminated and that a free trade area would be subject to U.S. import relief laws. I applaud that approach. I would be satisfied if the subsidies question were thoroughly studied and if any subsequent agreement specified that no benefits were conferred until all subsidies have been eliminated and that subsidies would result in withdrawal of benefits if shown to exist after the agreement becomes effective.

Fourth, the United States should not allow free trade areas to make our country the dumping ground for products other nations reject as a result of trade disputes. Those familiar with agricultural trade's recent history will recognize the problem. There has been a marked tendency, particularly on the part of the European Community, to pay high internal price supports while disposing of surplus products into world markets. This pattern horribly disrupts markets. Worse, countries such as the United States which have relatively open borders for agricultural products often wind up having to cope with depressed producer prices caused by others' subsidy practices. The "orphan" products problem is of particular concern to specialty crop producers because, owing to the short shelf lives and the absence of price support mechanisms for these commodities, specialty crop producers are especially vulnerable to changes in international trade.

The proposed free trade area illustrates the problem. In January of 1986, Spain and Portugal are scheduled to become members of the European Community. Looking across the spectrum of products produced in these countries and Israel, one finds a substantial overlap. Citrus, onions, garlic, tomatoes, olives and melons are among the many products these countries produce.

The accession of Spain and Portugal presents two possible scenarios, neither of which is very attractive. First, Spain and Portugal could back other Mediterranean nations' exports out of the Community because, while the E.C.-Israel Free Trade Area has reduced a number of duties, Spain and Portugal will ship products into the Community duty-free. Second, the Community may adopt farm policies to benefit Mediterranean farmers while protecting its Common Agricultural Policy through limitations on imports from other countries. If either of these scenarios comes to pass, Israel will be able to shift production formerly sent to the Community into American markets.

Unless the U.S. refuses to accept these products, U.S. producers will again be the ones to pay for trade problems involving other nations. Certainly, the availability of an American market for displaced products will depress our producers' prices. Perhaps more important, the Community and other will successfully export their trade problems once again as U.S.-generated revenues will help replace export revenues formerly generated by the Community. We should not allow that to occur. I strongly recommend that the Subcommittee incorporate a requirement for some sort of emergency volume controls into this Free Trade Area authorization so we can avoid such results.

Finally, we should require that the development of strong safeguards and import relief measures be made part of this agreement. I understand the United States has already informed Israeli negotiators that our import relief laws will apply to trade conducted under this agreement. Additional measures should prove useful, however.

As free trade areas are a new program for the U.S., we should require them to include mechanisms providing prompt, binding settlements of disputes. Based on our experience with GATT panels, there is a good deal of skepticism in California about the ability of international dispute procedures to resolve trade problems. The European Community and Israel have a joint council that handles disputes. Ambassador Robert Lighthizer told this Subcommittee in May that a similar arrangement is contemplated for implementing the U.S.-Israel free trade area, and with that in mind, I hope the Subcommittee will require that such a council be subject to strict deadlines for resolving disputes about this agreement.

Further, the final agreement should provide some kind of "fast track" relief mechanism for perishable and processed agricultural commodities as well as other products we can identify as import sensitive. I believe that some products are so import sensitive at this point in time that they should be completely excluded from an agreement. Others, however, are on the verge of being extremely sensitive and ought to be afforded special treatment. I am particularly interested in seeing a mechanism like the perishable agricultural commodities provisions of the Caribbean Basin Economic Recovery Act incorporated in the final agreement for this an other free trade areas. I would, however, suggest that the Act's provisions be expanded in three ways. First, coverage should be extended to processed agricultural products as well as fresh products, since processed product inventories have a severe effect on prices available to growers. Second, I would like to see the types of actions covered expanded to include anti-dumping and countervailing duty complaints. Finally, I think it would be appropriate to make it clear that, if presented with a meritorious case, the President should provide immediate relief; in other cases, relief would remain discretionary.

Before concluding, I want to point out that there are commodities that, because of their sensitivity to imports, should be excluded from Free Trade Areas altogether. With respect to the U.S.-Israel free trade area, I want to highlight certain commodities which are clearly import-sensitive and for which GSP duty-free treatment has been denied. These commodities are citrus, both fresh and juice products, dried and dehydrated onion and garlic products, black and green olives, tomatoes, and apricots. As these items are import-sensitive, duties on them should remain in place. Further, I want to reemphasize that the U.S.-Israel free trade area will be precedent-setting. What is done here will set the tone for the subsequent free trade areas Californians expect to follow. With that in mind, I hope the Subcommittee will consider excluding the following list of farm products from free trade area benefits because, based on information and comments I have received from agricultural groups and others, these commodities are extremely vulnerable to the concerns I have previously mentioned.

Almonds, in-shell
Almonds, shelled
Almonds, processed
Apples, fresh or preserved
Apples, dried
Apricot concentrate
Apricots, dried
Apricots, preserved or prepared
Avocados

Artichokes, fresh and preserved
Artichokes, marinated or pickled
Beets, fresh and preserved
Beets, pulp and dried
Broccoli, fresh, chilled or frozen
Carrots in airtight containers
Carrots, dried or dessicated
Carrots, fresh
Cauliflower, fresh, chilled or frozen
Celery, fresh, chilled, or frozen
Cheese (Swiss, emmenthaler, pecorino and other varieties)
Citrus and citrus products
Dates, chiani, fresh or dried
Dates, fresh with pits
Dates, fresh without pits
Eggplant, fresh or chilled
Flowers, fresh cut
Flowers, fresh cut bouquets and wreaths
Flowers, fresh cut minatures (sprays)
Fresh grapes
Fruit juices
Fruit mixtures, dried or otherwise preserved
Garlic, fresh, chilled or frozen
Garlic, dried or dehydrated
Garlic flour
Grape juice
Grapes, fresh
Lettuce, fresh, chilled or frozen
Melons, particularly honeydew, cantaloupe and watermelon
Oil bearing seeds and nuts
Olive oil
Olives, fresh
Olives, green in brine
Olives, stuffed green in brine
Olives, black
Okra, fresh, chilled or frozen
Onion flour
Onions, fresh or frozen
Onions, dried and dehydrated
Onions, packed in salt
Onions, prepared or preserved
Parsley, fresh, dried or preserved
Peaches, fresh and prepared
Pearl Onions
Pears, fresh, prepared or dried
Peppers, fresh, chilled or frozen
Peppers, preserved or prepared
Pimientos, prepared or preserved
Pistachios, shelled and unshelled
Plums, fresh and preserved
Potatoes, fresh
Potato products
Prunes
Raisins
Sugar beets
Sugars and sweeteners
Tomato ketchup and chili sauces
Tomato paste and sauces
Tomatoes, dried flakes or flour
Tomatoes, fresh and chilled
Tomatoes, prepared or preserved
Strawberries, fresh or in brine
Strawberries, frozen
Strawberries, prepared or preserved
Vegetable flour
Walnuts, shelled and unshelled
Wine grapes
Wines, vermouth, champagne, brandy, and distilled spirits
Wool grease

Planted Acreage (1981/82)

	California	Israel	Israel/ California
Grapefruit	23,305	22,700	97.4%
Peaches	70,964	6,300	8.8
Apricots	24,445	2,325	9.5
Plums	42,652	3,525	8.2
Table grapes	83,294	9,075	10.8
Wine grapes	363,496	7,525	2.0
Olives	35,176	32,775	93.1
Almonds	419,729	10,050	2.3
Avocados	81,609	26,825	32.8

Source: The 1982 California Fruit and Nut Acreage Publication, of The California Crop and Livestock Reporting Service.

The Israeli Statistical Abstract - 1983.

attachment A

U.S. IMPORTS OF TOMATO PASTE, 1978/79-1982/83

Marketing Year	Imports from Israel (metric tons)	Total Imports as a Percentage of Shipments	Imports from Israel as a Percentage of Total Imports
1978/79	2,060	6.8	9.1
1979/80	128	3.6	0.9
1980/81	143	3.8	1.1
1981/82	8,899	19.4	10.7
1982/83	12,014	15.2	17.4

U.S. IMPORTS OF CANNED TOMATOES, 1978/79-1982/83

Marketing Year	Imports from Israel (metric tons)	Total Imports as a Percentage of Shipments	Imports from Israel as a Percentage of Total Imports
1978/79	3,050	4.7	11.8
1979/80	1,170	2.5	8.2
1980/81	2,976	4.1	12.0
1981/82	9,944	10.9	14.0
1982/83	13,207	10.0	19.2

U.S. IMPORTS OF TOMATO SAUCE FROM ISRAEL
1978/79-1982/83

Marketing Year	Imports from Israel (Metric tons)	Imports from Israel as a Percentage of Total Imports
1978/79	1,821	92.9
1979/80	490	86.6
1980/81	1,305	91.6
1981/82	5,697	86.7
1982/83	9,142	81.1

attachment B
Source: Foreign Agriculture Service, USDA

Statement: April 1, 1984
George A. Johannessen, Director
California Tomato Research Institute, Inc.
Livermore, CA

TOMATO PASTE IMPORTS FROM ISRAEL
1978 — 1983

Pounds:	Israel	Total Imports	Israel as a % of Total
1983	16.698.729	160 742 004	12 6%
1982	25.048.974	198.029 353	12 6%
1981	10.954 188	65.202 175	16 8%
1980	314 834	25.465 289	1 2%
1979	2 983.998	42 054.052	7 1%
1978	2.391.030	50.990 645	4 7%

Note Prior to 1978 import data for Tomato Paste and Sauce was combined

Of all Tomato Sauce imported in 1983 Israel accounted for nearly 70%

TOMATO SAUCE IMPORTS FROM ISRAEL
1978 — 1983

Pounds	Israel	Total Imports	Israel as a % of Total
1983	16.476.625	23 626 127	69 7%
1982	18 954.172	21 824 299	86 8%
1981	8.008.791	9.116.339	87 9%
1980	1.299.742	1 651 098	78 7%
1979	2 474.353	2 793.422	88 6%
1978	6 345.237	7 116.183	89 2%

Note Prior to 1978 import data for Tomato Paste and Sauce was combined

Imports of prepared Tomatoes (except Paste and Sauce) in 1983 totaled 186 7 million pounds of which Israel accounted for 26 1%

PREPARED TOMATO IMPORTS FROM ISRAEL
(not Paste or Sauce)
1978 — 1983
(Source Bureau of Census)

Pounds:	Israel	Total Imports	Israel as a % of Total
1983	48 772.442	186 708.619	26 1%
1982	24 713.804	167 017 976	14 8%
1981	14 355.621	97 227 954	14 8%
1980	4 148.889	39.880 425	10 4%
1979	5.497.885	45.566 276	12 1%
1978	7.451.889	74.164.976	10 0%

Attachment C

The rise in imports of individual tomato products is charted below:

TOTAL U.S. IMPORTS OF CANNED TOMATOES
(lbs.)

1980- 39,880,425
1983-186,708,619

TOTAL U.S IMPORTS OF TOMATO SAUCE
(lbs.)

1980- 1,651,098
1983-23,626,127

TOTAL U.S. IMPORTS OF TOMATO PASTE
(lbs.)

1980- 25,465,289
1983-160,742,004

These growing import levels have caused serious economic hardships to U.S. tomato growers and processors. Although national demand for tomato products currently totals 7 million tons and U.S. producers have a 12 million ton productive capacity, the U.S. industry has been unable to increase its market share beyond the 6 million ton level. In contrast, the ratio of imports to consumption rose from 3.12% to 10.05% from 1980 to 1982.

Imports have also adversely affected market prices for the domestic industry. It is instructive to consider the market conditions in California, where much of the U.S. production of canning tomatoes occurs. The price per ton paid to California growers of processing tomatoes fell from $55.60 per ton in 1982 to $53.50 per ton in 1983, a reduction of $2.10 per ton. Moreover, the total value of the California canning tomato crop dropped from $377 million in 1982 to $322.5 million in 1983.

Attachment D
Source: National Association of Growers and Processors for Fair Trade; The Economic Hardships Facing the U.S. Tomato Industry; 1984

APPARENT U.S. CONSUMPTION OF TOMATO PRODUCTS
(Metric Tons 1/)

Product and Year	Domestic Shipment	Plus Imports	Less Exports	Consumption
Canned Tomatoes				
1978/79	553,742	25,830	13,180	566,392
1979/80	592,284	14,234	20,180	586,338
1980/81	600,008	24,718	14,742	609,984
1981/82	592,482	71,144	11,715	651,911
1982/83	622,999	68,628	7,547	684,080
Tomato Paste 2/				
1978/79	336,349	22,791	10,690	348,450
1979/80	399,940	14,334	18,444	395,830
1980/81	353,892	13,342	12,730	354,504
1981/82	427,906	82,888	7,972	502,822
1982/83	452,961	68,938	10,993	510,906

1/ 1 Metric Ton = 91.858 cases of 24/303's. 2/ Domestic shipments include only bulk and Institutional size containers for California only.

SOURCE: National Food Processors Association, California League of Food Processors and U.S. Department of Commerce, Bureau of Census.

Attachment E
Source: Foreign Agriculture Service, USDA

U.S. IMPORTS OF OLIVES, ALL FORMS
Calendar Years

Year	Total	From Israel	Total	From Israel
	-----Metric tons---		--------$1,000-----	
1979	39,993	216	75,730	300
1980	40,276	220	78,709	383
1981	41,793	1,296	77,965	1,834
1982	50,220	1,789	96,070	2,703
1983	51,613	1,395	77,027	1,718

NOTE: 1 Metric Ton equals 2,204.62 lbs.

SOURCE: U.S. Department of Commerce, Bureau of Census

UNITED STATES: APPARENT CONSUMPTION OF OLIVES 1/

Year	Metric Tons 2/
1979	94,826
1980	90,064
1981	97,942
1982	89,226
1983	102,060

1/ Domestic shipments for marketing years ending July 31 or Aug. 31 plus calendar year imports.
2/ 1 Metric ton equals 189.645 cases (24/no. 300 basis).

ISRAEL: PRODUCTION OF OLIVES 1

Year	1,000 metric tons
1979	8
1980	45
1981	17
1982	40
1983	18

1/ Includes olives for oil and for canning.

Attachment F
Source: Foreign Agriculture Service, USDA

U.S. IMPORTS OF ORANGES (NOV.-OCT.)

	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83
	(Metric Tons)					
U.S. IMPORTS						
Israel	4,557	4,267	314	600	1,847	603
Total	25,720	28,533	11,080	8,275	13,338	6,072
U.S. Consumption of fresh oranges	1,626,000	1,487,000	1,958,000	1,792,000	1,661,000	2,380,000
Israeli Production of oranges	949,000	939,000	893,000	756,000	1,105,000	860,000

Attachment G
Source: Foreign Agriculture Service, USDA

ISRAELI MARKET SHARES OF SELECTED PRODUCTS

U.S. OLIVE CONSUMPTION, ALL FORMS

Year	Consumption MT	Imports from Israel (MT)	Israel's Mkt Share
1983	102,060	1,395	1.4%
1982	89,226	1,789	2.0
1981	97,942	1,296	1.3
1980	90,064	220	0.2
1979	94,826	216	0.2

U.S. CANNED TOMATO CONSUMPTION

Year	Consumption MT	Imports from Israel (MT)	Israel's Mkt Share
82/83	684,080	13,207	1.9%
81/82	651,911	9,944	1.5
80/81	609,984	2,976	0.5
79/80	586,338	1,170	0.2
78/79	566,392	3,050	0.5

U.S. TOMATO PASTE CONSUMPTION

Year	Consumption MT	Imports from Israel (MT)	Israel's Mkt Share
82/83	510,906	12,014	2.4
81/82	502,822	8,899	1.8
80/81	354,504	143	0.0
79/80	395,830	128	0.0
78/79	348,450	2,060	0.6

Note: the canned tomato consumption figures are based on shipments of bulk and institutional size containers for California only.

Figures derived from information obtained from Foreign Agriculture Service, USDA

Attachment H

OURCE: STATE OF THE AMERICAN DEHYDRATED ONION AND GARLIC ASSOCIATION
Submitted to: the U.S. International Trade Commission
USITC Investigation No. 332-180
Washington, D.C. April 3, 1984

ESTIMATED COST OF ISRAELI DEHYDRATED ONIONS IMPORTED TO THE U.S.:

Approximate cost of Israeli dehydrated onions:	91¢/lb.
Est'd transportation cost to New York adds:	18¢/lb.
U.S. duty adds:	26¢/lb.
Other charges:	10¢/lb.
Total:	$1.45/lb.
less duty:	$1.19/lb.

Prices qouted by Association firms at F.O.B. shipping points range from $1.19 to $1.37 per pound for carload lots.

Attachment I

Chairman GIBBONS. Before we go to the panel discussion let's have the testimony of our colleague, Barbara Vucanovich.

STATEMENT OF HON. BARBARA F. VUCANOVICH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEVADA

Mrs. VUCANOVICH. Thank you, Mr. Chairman.

Mr. Chairman and members of the committee, I am pleased to have this opportunity to testify today before this subcommittee on H.R. 5377 which would authorize negotiation of a United States-Israeli free trade area. Let me begin by saying that I support free trade agreements between the United States and other countries, and I especially support efforts to improve America's economic relationship with Israel. However, I do have some concerns about H.R. 5377 and how it impacts on my constituents in the Second Congressional District of Nevada.

In my district, I have particular concern for the dehydrated onion and garlic industry. That industry is small in the grand scheme of things; however, in rural areas, where this industry is centered, the dehydrated onion and garlic industry is a substantial employer. There are four leading U.S. manufacturing companies which specialize in the production of dehydrated onion and garlic products. Member firms operate six plants, one of which is located in Fernley, NV, a relatively small rural community. This plant is operated solely by geothermal energy and employs approximately 85 permanent employees. If this legislation is adopted, it will have a significant economic impact on the Fernley, NV, plant. Reduction of plant production and layingoff of rural workers would create serious unemployment and economic dislocations for Fernley where few alternative employment prospects exist.

The reason I have concern for the dehydrated onion and garlic industry is that Israel has its own well-developed, heavily subsidized dehydrated onion and garlic industry. As a result of the kibbutz system of collective farms, Israeli farmworkers are provided subsidized housing, food, social services, and other amenities by the Israeli Government. Moreover, the marketing and exporting of Israeli vegetables, both fresh and processed, is handled by Agrexco, a cooperative in which the Israeli Government owns a 50-percent interest.

The dehydrated onion and garlic industry in the United States is 100 percent contracted and has never received any Government subsidies. Competition is severe and as a result the market is continually analyzed and the crops adjusted to market conditions. The industry is a no-growth industry with approximately a 2-percent increase over the past 5 years. To approve this legislation without exempting dehydrated onion and garlic products, which are dutiable items now, would have the effect of bringing strong foreign competition into a no-growth domestic market in the United States.

Elimination of U.S. tariffs would open the large American dehydrated onion and garlic market to subsidized Israeli imports that could capture a growing share of the market by underselling American products. Thus, duty-free treatment will only give away a substantial part of the mature U.S. market without creating a compensating opportunity for U.S. producers to compete successfully in the Israel market. The point is that unless the multilateral implications of this issue are not considered now, the undesirable adverse impacts of a bilateral free trade zone will have tremendous ramifications on the domestic dehydrated onion and garlic industry and the rural Nevada areas where this industry operates.

Dehydrated onions and dehydrated garlic are primarily industrial products. About 80 percent of the industry's dehydrated output is sold to industrial users, primarily food processors and the food service industry, where the products are used as seasonings or food flavoring. Thus the American consumer gains no economic benefits from the low-priced imports since quantities are too small in the consumer-size portions to have price savings passed on to consumers.

Finally, I would note that in the Carribean Basin Initiative, this committee successfully provided appropriate protection for "import sensitive" domestic industries while maintaining the substantial benefit of duty-free access for the vast majority of other products which the Carribean nations wished to export to the United States. I believe this makes sense and I encourage the committee to exempt these "import sensitive" items from H.R. 5377.

While I do support a free trade agreement between the United States and Israel, I do not believe that H.R. 5377 allows free trade in the dehydraded onion and garlic industry. I hope that the committee will exempt the dehydrated onion and garlic products from this legislation so that American companies who process dehydrated onion and garlic products, the American farmers who grow onion and garlic for dehydration, and the local economies of the areas in which this industry is located are not irreparably damaged.

Thank you.

Chairman GIBBONS. Thank you, ma'am.

I have had some discussion with Mr. Shumway before the rest of you arrived, and I want to assure you that there is nothing in this legislation that will allow our industries to be harmed by Israeli subsidies. Unfortunately, subsidies are one of the most pernicious things that we have to fight.

As the barriers around the world have come down on trade, the subsidy has risen on the other side as an equally hideous type of villain, and I hope that the laws that we have now, if they are not adequate, will be improved. This committee is trying to improve those laws, to make sure that subsidies, no matter how cleverly disguised or no matter how cutely composed, will be subject to our countervailing duty laws. I would see no reason why in a negotiation with Israel, the negotiators could not take cognizance of the fact that these subsidies have to be offset in an appropriate manner; that as I pointed out to Mr. Shumway, this bill requires that it be a reciprocal type of negotiation.

That doesn't mean throwing away all of our rights or asking another country to throw away all of its rights, but the advantages have to be reciprocal, moving toward a low barrier so that we can increase the commerce and increase the mutual benefit of both countries. There is no greater opponent to subsidies in the Congress than Sam Gibbons, I will assure you of that, but I have talked long enough. Mr. Downey.

Mr. **Downey**. Thank you, Mr. Chairman.

I want to personally thank our colleagues for coming today and giving us their testimony, because they do raise some important points, and I would just like to make a few of my own, and have them respond to them. I think it is important to put Israeli trade in some perspective, because while it is a problem no doubt for certain industries, when viewed in totality, I think it becomes less of a concern.

According to the USDA estimates, in 1983 the United States exported 306 million dollars' worth of farm products to Israel, while importing only $51 million. According to the Bank of Israel annual report, in 1982, for the period 1980 to 1981, only 0.9 percent of Israeli agricultural exports went to the United States while 90 percent of it went to the EC countries.

With respect to tomatoes in particular, the United States, as I understand it, in 1984 is expected to produce about 7 million metric tons of tomatoes for processing, whereas last year the United States produced about 6 million tons. Israeli total production was about 300,000 metric tons, and it appears as though the Israel production of tomatoes corresponds to whether we have a good or bad year in our own country.

With respect to whether they can get a larger market share, they would be competing with the United States, California and Florida, with correspondingly similar growing seasons, which is not the case with the EC. One example I have before me: the cost of U.S.-grown tomatoes is about 69 cents a pound in the store. Israeli transportation costs are almost that much, about 50 cents per pound, if shipped by air. If shipped by sea——

Mr. **Thomas**. Are you talking about fresh tomatoes?

Mr. **Downey**. Yes.

Mr. **Thomas**. Fresh tomatoes are no problem.

Mr. **Downey**. If shipped by air, we are talking about 50 cents, and if shipped by sea we are talking about 3 weeks, so we are not, clearly, in the case of fresh tomatoes, in a position to have the Israelis competing with us.

Mr. **Thomas**. No.

Mr. **Downey**. With respect to citrus because that has been raised, Bill, by you, the figures that I have before me are that the Israelis are moving out, not out of the business, but they have been reducing their citrus exports.

Mr. **Thomas**. Will the gentleman yield on that point?

Mr. **Downey**. Certainly.

Mr. **Thomas**. Do you know why they are reducing their citrus exports?

Mr. **Downey**. According to the Jerusalem Post of March 5, they have been chopping down citrus orchards because the cost of land and water is too high.

Mr. **Thomas**. And do you know what they are putting on that land that they are removing the citrus trees from? Tomatoes.

Mr. **Downey**. Tomatoes?

Mr. **Thomas**. Tomatoes. Because the citrus processors, if you will allow me just for a moment——

Mr. **Downey**. Surely.

Mr. **Thomas**. Because they used to be very heavily involved in processed citrus products, canned citrus wedges, orange and grapefruit, mandarine and others into the EC market, so they have got the processing opportunities, the plants available, but citrus quite clearly is a permanent crop and the water consumed by citrus is too expensive but with the new technology in terms of tomatoes and their processing knowledge they shifted right over from citrus and into processed tomatoes.

Mr. **Downey**. Bill, I have some evidence before me that their tomato acreage has fluctuated over the last few years, and in particular after the United States had a diminished crop, the Israeli acreage increased, and the year after a large U.S. crop, Israeli acreage decreased their tomato production, and if you would like to comment on that. It appears as though the acreage dedicated to tomato growing has depended upon the crops in the United States, not just whether or not we are taking citrus out of production. Now let me deal with citrus for a few more minutes.

According to a fellow by the name of Benjamin Rubin, who has written extensively on the Israeli economy, 150,000 tons of citrus fruit will be destroyed as the cost of land and water combined with the competition of Spain, Greece, Morocco, and Algeria make extensive agriculture in Israel increasingly unprofitable. Quoting further from the Washington Post of May 8:

> Demand for orange juice is running ahead of projections and it may be in short supply and cost more this fall, according to citrus industry analysts. For the first time since 1977, there may not be enough juice to meet worldwide demand. Last year Brazil had a bad crop because of poor weather, and tightening of farm credit by the Brazilian Government.

This report goes on to further suggest that once again the cost of shipping here is prohibitively expensive, and the cost of shipping to the EEC, which is a more natural market, far more attractive.

Let me ask you one other question with respect to citrus, and then have you respond. The concern, it would appear to me, that we need to have in the United States is about Brazil and Mexico with respect to citrus products, because in the last few years, Mexico has planted over 25 million citrus trees.

So, while I think it is of concern for us, as Mr. Gibbons has pointed out, the free trade area does not sanction, nor should it under any circumstances, subsidized trade or dumping. Indeed the laws that we currently have, section 337, unfair trade practices section, allows the United States to exclude such products and under 301 we have a whole host of other remedies. While the Israelis are clever and smart and aggressive, their natural market, at least for expanded agricultural products, does not appear to be in the United States but in the EEC. With respect to olives in particular, as I understand it, Bill—and you correct me if these figures are wrong—California has about 1,500 olive growers on 32,000 acres. Is that about right?

Mr. **Thomas**. Roughly.

Mr. **Downey**. Israel currently has a 16-percent tariff for imported olives, which is higher than the U.S. tariff for imported olives. So the FTA legislation would mean that we could ship them olives the same way they could ship us olives, and we would have a reduced——

Mr. **Thomas**. In other words, the U.S. olive growers could ship the 4 million Israelis what products they could, and the 4 million Israelis could ship the 230 million Americans——

Mr. **Downey**. I am sure olive growers are looking for expanded markets; they are not afraid of going into small or large markets.

Mr. **Thomas**. No; we are not afraid of anyone where we have an equal opportunity. Let me address first of all this business of a secondary market, because I have heard this over and over again, the argument that the Israelis, for example, in tomatoes, are a secondary market, that they are never going to try to move aggressively into the U.S. market or focus on it as one of their primary export markets.

I think you have to just categorically reject that argument. It certainly lulls people to sleep, those who aren't aware of the facts, in assuming that the Israelis will be there when we can't, and that may be a useful argument in terms of geopolitical considerations in certain areas of the world. But in terms of economic markets in the United States, I think if you look at the figures, let me give you once again off attachment C what has happened in terms of Israel imports.

In terms of tomato paste, they have gone from 1.2 to 12.6 percent of the total; in terms of pound, from 314,000 to 16.7 million pounds in just a 4-year period. That is not a secondary supplier, that is someone who is aggressively moving to have a strong foothold in the marketplace. They have done that by virtue of the shipping subsidies they get.

As we heard from testimony previously, 65 percent of the fruits and vegetables in Israel are growing on kibbutzes, which are in essence a collectivized socialized structure, where they don't pay prevailing wages for the work involved. Tomato sauce from 1.3 million pounds to 16.4 million pounds. It is not just that growth. It is the direction of the growth. They clearly are moving more aggressively into the marketplace. That is with the duties in place.

They clearly have an advantage. They are clearly making money with the duties in place. Remove the duties and they have such an advantage that they will simply shove the California and, to a degree, the Florida product off the shelf.

If you will take a look in terms of attachment H, once again when you look at the percentages involved, it may not look like significant percentages, and when you say that the United States shipped 306 million dollars' worth of agricultural products to Israel, that is true. A lot of it is grain, a lot of it is soybean, a lot of it is bulk Midwestern crops, that if it isn't grown on 10 acres over here they can grow it on 10 acres over there.

Once the olive trees in California are gone, and we have seen a decline in the acreage of olive trees, you can't plant them in Kansas like you can move wheat from Kansas to North Dakota to South Dakota to Minnesota, to Montana. You have got very few regions in the United States.

Mr. **Downey**. That is true of citrus trees as well.

Mr. **Thomas**. To a lesser degree, but that is true as well, tomatoes to a lesser extent, except you have got the processing aspects of tomatoes, the way we are trying to say is, as you discuss the level playing field, as you are sensitive to the idea that there ought not to be subsidies, I don't want you to not be a referee in terms of just before a fight between two fighters, the one fighter walks over and starts blackjacking the other fighter. You don't pay any attention to that because the bell hasn't rung. We haven't created a free trade area, but prior to the establishment of the free trade area, this guy is mugging you all over the place, then you step out in the center of the ring and say, all right, the bell has rung, now let's make sure we operate by the Marquis of Queensbury rules.

That is what has happened based upon where we are today, and the subsidies that Israel has been using, they are clearly in the marketplace, and with their advantages in terms of the labor structure that they have, and the shipping structure that they have, all of the figures, if you will take a look at attachment I, for example, Israeli dehydrated onions, 91 cents a pound in terms of New York, transportation cost add 18 cents. U.S. duty add 26 cents. Other charges add 10 cents a pound. Total, $1.45 a pound. If you remove the duty, they are down to $1.19.

Currently, carload lots f.o.b. in terms of Los Angeles, CA, or Nevada to New York, it is about $1.37 a pound. With the duty in place, we compete. Remove the duty, you destroy the dehydrated onion and garlic market for the producers in the United States. You certainly enhance it for the Israelis.

The point I want to make, any gross number of agricultural dollar exchanges cannot understand the sensitivity and the very narrow base that we are dealing with in terms of the specialty products. I haven't asked to exclude the list of over 80 sensitive agricultural products that are included in my full testimony. I am talking 80.

These crops, some of them, are in the millions of dollars. It would definitely be damaged. I am not talking about those. We have narrowed it down to those items that have continually had GSP petitions from Israel rejected under the GSP arrangements over a series of years, where Israel, under the structure, can come back every year and has repeatedly been rejected every year.

We are talking about those products in the most recent ITC study that hasn't even been released yet will tell you that they will clearly be damaged. We are not talking about the 306 million. We are talking about very narrow, specific products, that if they are not excluded, we will lose our ability to compete.

Mr. DOWNEY. Bill, under rejection, for instance, of GSP for olives, my understanding—correct me if I am wrong—is that if you grant GSP for olives, you have to grant it to Morocco and the other countries that apply for it as well. Is that correct?

Mr. THOMAS. Yes.

Mr. DOWNEY. Is that part of the reason why they have been turned down, that it is not just concern about Israeli olives in particular, but it has been concern about Moroccan and Spanish and other olives from other people as well?

Mr. THOMAS. The gentleman from New York is absolutely correct, and that is why we are so adamant in this first free trade area, that we make sure that we understand the sensitivity of the product, so that several years hence the gentleman from New York doesn't come to me at this same table and say: Well, now, remember we didn't exclude these products from the Israeli free trade area. We certainly can't do it for the Moroccan free trade area and for the Spanish free trade area, et cetera, et cetera.

I want to make sure that we establish from the beginning that these specific agricultural products and the processed products from them are going to be severely damaged, and that we exclude them in the first free trade area, so that down the road we don't have to try to fight the battle after the folks are on the floor and come back.

Mr. **DOWNEY**. And I think you have been honest. I think that that is a little different point than some of the points you have been making before. I mean, if as a matter of course there are industries in this country that are threatened by free trade, and you have enumerated them, you want to basically put your finger in the dike before the dike crashes down. That is basically the point.

Mr. **THOMAS**. With a qualification that when you say we are threatened by free trade, I want to indicate that it is not a free trade situation that we are concerned about. We are concerned about the uneven playing field that we are dealing with, yes.

Mr. **DOWNEY**. First of all with respect to subsidized agriculture, you talked about the kibbutz, whether or not they pay the prevailing rates. My extensive visits to them suggest that it is very hard to figure out what a labor rate is, because there are a whole host of services that are provided free, and other work requirements other than just working in the fields that are required of individuals.

Mr. **THOMAS**. But I can assure you it is not in the California tomato processing plants.

Mr. **DOWNEY**. You don't have too many kibbutz, I am sure, in California, or Socialists, as far as I can tell, working and producing fruit or citrus.

Mr. **SCHULZE**. There are a lot of Socialists but they don't work.

Mr. **DOWNEY**. They are all on welfare. It's just the capitalists that have been working, right?

I think you made your point, Bill. I think, without getting into it, and I want to let the others talk about this. My sense is that with a lot of the products that you have talked about—and I am going to take a look more about processed tomatoes and others because you have made some good points—the question is more one of staunching the flow before it gets too large as opposed to whether or not the Israelis are going to be able to command a gigantic market, because, frankly, we are talking about a small country with few people, with limited land and water. To suggest that somehow they are going to replace probably the most efficient, intelligent growers in the world in California and Florida is an overreaction.

I mean, you yourself pointed out the fact that they are using processes developed at UC-Davis in California, and that this technology and capability will always reside in this country. I believe it will always allow us to have a competitive edge.

Mr. **THOMAS**. I have not asked you to exclude almonds, olives, grapefruit, oranges, and a number of pistachios, because when you do that I have talked about five crops, and you only have so many acres in Israel. I fully understand that, and not all of them can be threatened, because you can't graft a tree that produces the five different varieties, no question, and I said I am not talking about the over 80 specific crops that California farmers have written me about, to say they may be threatened. Most of those are looking at the subsequent free trade areas, the thumb-in-the-dike kind of concept.

That is why I have tried to concentrate on the testimony, not on those broad numbers of areas but on three specific broad areas, where I think clearly this particular free trade area, the Israeli-United States free trade area, can have a significant effect on the market. That is, processed tomatoes, not fresh tomatoes. We fully concede the fresh tomato market. It doesn't make any sense that the Israelis would threaten the fresh tomato market. That is not what we are talking about. We are talking about processed tomatoes, tomato paste, tomato sauce. Not only does it threaten it, it is clear that they will have a significant and damaging impact. Don't rely on my words as a Representative from California, read the ITC report when it is made available. No question, severe damage.

Dehydrated onions and garlic, the same thing. Olives, the same thing, and that is the end of my list. I am only giving you three products that in my opinion, because I know I couldn't sell you on 80 products because I couldn't be honest and sit here and tell you in terms of the Israeli free trade area that those are going to be significantly damaged. I have condensed the list down to those that I think the evidence clearly shows ought to be excluded, and the reason I am pushing hard is because if there are going to be additional free trade areas, I want us to examine, and if on the merits of the evidence they ought to be eligible for exclusion, we ought to talk about it.

I don't want to start the first one, back to the thumb in the dike, when we have clear evidence, and Government reports are going to show, that we have clear evidence that we ignore it, because then we have to be the damaged party and go through a process which is very laborious, not too successful, and if on the face of it these products can't stand scrutiny, and that we believe that the reports don't show that there is going to be extensive damage, fine. I think the evidence will clearly show it, and that is why I am making my case only for those that I think have the best case.

Chairman GIBBONS. Processed tomatoes, olives, dehydrated onions, and garlic.

Mr. THOMAS. Yes. We can go into mushrooms in terms of what can occur, but what I am saying is that the other products I think ought to have a fair opportunity to come in and make their case, lay out their numbers, and if they look similar, then you have to consider them, but if they don't, and this is almost heresay with some of the folks within the room behind me who are my supporters in terms of California agriculture, if they can't make their case, then I can't support them.

But if they can make their case, then, boy, I want to know why we say despite the clear evidence that there is going to be damage we give this administration, and I said this administration, negotiation powers to go in there and do what you can and when it is all over, then you figure out what remedies you may have available under national and international agreements. I just don't think that is the way to operate.

Chairman GIBBONS. All right, Mr. Schulze.

Mr. SCHULZE. Thank you, Mr. Chairman.

I have to agree somewhat with my colleague from California, that you don't wait until after the horse has been stolen to lock the barn door. In fact if you wait for the subsidy remedies which would be available, you are putting a burden of the expense and the burden of proof on the domestic producer which, in my opinion, puts him at an expensive disadvantage.

Do all three of you agree that if we are going to carve out exemptions, they should be on specific products and not, for instance, the GSP import sensitive list or some other list or categorization now in effect? Do you agree with Mr. Thomas that we should go to specific products?

Mrs. **Vucanovich**. I personally do, but that is a very provincial interest. I certainly think that that is a lot more reasonable.

Mr. **Schulze**. Norm.

Mr. **Shumway**. Well, I am not familiar with all of the products on Bill's list obviously, but the ones that I do know about, and particularly tomato processing which is very evident in my part of the State, not only in growing in the field but in the canneries that process them when they are harvested, those are areas that I think at least should be exempted. Whether the remainder of the bill or what is left of the free trade areas should still stay there, I can't address. I really don't know.

Mr. **Schulze**. Barbara, I was impressed with the fact in your statement that the dehydrated onion and garlic production has had a 2-percent growth over the last 5 years.

Are there any reasons for that? Is that because of import penetration, or is that just the market?

Mrs. **Vucanovich**. I think it is the market, itself. We have a small plant and, of course, a fairly small area. Using geothermal energy has made some restriction on it. But I think it is mainly the industry itself as far as our State is concerned, how much they purchased from our area.

Mr. **Schulze**. Mr. Thomas, do you think that market growth or percentage of penetration would be a way to look at this, or strictly on volume or percentage?

Mr. **Thomas**. Well, there are a number of ways to look at it, and you gathered the statistics the way it makes your case. The snapshot in time is probably better for some folks in terms of showing that it isn't significant, only 2 percent of the market. I prefer to take a look at what has happened over the past 4 years.

When you go from nothing to 2 percent, from 3,000 pounds to 6.4 million pounds, I can't recall that a secondary supplier waiting on the extrapolation of the U.S. market. If I extrapolate that out in terms of where we will be in 5 years from now, knowing what we have done with technology in California, fourfold and fivefold increases, and we haven't even computerized it yet, we have just taken the direct application to the route. You don't have any evaporation from loss. You know half of it used to go into the road with the sprinkler system, direct application, and now computerize that to the actual plant utilization time and all of a sudden the fact that you don't have any water is not as significant an argument.

Ten years down the road, depending on exactly how this bill is written, and this is another point that I don't think has been established yet. Are we talking about the country of Israel? Are we talking about occupied territories or any additional occupied territories that Israel may have sometime in the future as automatically included in this? Where we are in terms of territory? Is the West Bank included? My understanding is it is. To what extent is it in terms of other areas? What is the territory that we are talking about? I don't know where that is going to be.

So when you are talking about numbers, volume, obviously it is structured in the way that makes your case look the best. My biggest worry is when I look at the number and look at what has occurred in exponential growth in terms of these processed products, I am scared to death because we are talking about one or two counties in California. It won't have any impact on the 306. We could disappear overnight, and it would be a small blip, an asterisk in terms of what occurred.

But in terms of continuing a viable market that has not been subsidized through Government moneys and allowing folks to pursue their economic interests, I just don't understand why we aren't sensitive to numbers that show us where we are today and where we very clearly will be tomorrow.

Mr. SCHULZE. You alluded to transshipping in your statement. Do you want to elaborate on that a little bit?

Mr. THOMAS. In discussions with the chairman, I feel much better than I did early on, but we are very sensitive, as Mr. Downey indicated, that the Israelis are concerned about competition from a number of other areas that can grow the same Mediterranean crops that we do, and they are, in fact, countries around the Mediterranean, Morocco, other countries against Spain, Italy, others, but hopefully they will be tied up in the EC structure.

The problem is that if you already have the efficient processing plants in place, it is very easy to move the bulk product from, say, Morocco to Israel, then process it minimally and to some extent they are shipping olives into the United States today in these gigantic 5,000-gallon rubber containers that you have seen for gasoline and others in bulk. They are brought in and then reduced in terms of canning or jarring, and it is very simple to pick up a number of raw resource areas.

Turkey, in terms of pistachios, Iraq and others move them through, minimally process them, break them down, take them from bulk and put them in smaller packages and then move it out as a product of Israel under a free trade arrangement.

Mr. SCHULZE. You also mentioned domestic content. Do you have any specific suggestions along that line to get away from transshipment?

Mr. THOMAS. Some kind of a certification process to indicate that these are Israeli products.

Now, how that is verified, there is some discussion. Some people like it to be the government verifying it. Others would prefer another source. I am less concerned about the mechanics of how you are going to verify it as long as the process is one in which most people are comfortable that the verification is an accurate one.

Mr. SCHULZE. What percentage would you say, or do you think it has to be 100 percent?

Mr. **Thomas**. My understanding is we are attempting to negotiate a free trade area with Israel. We aren't negotiating one with asterisks on it in terms of percentage of domestic content.

Mr. **Schulze**. If you are shipping some product, and let's say you get a portion of the brine, 3 percent, 5 percent, or 10 percent. I think you have got to have some kind of figure to allow for domestic content?

Mr. **Thomas**. My answer is if we are dealing with Israel, I want a 100-percent Israeli product that comes in under no duty.

Mr. **Downey**. If the gentleman would yield, have you had a chance to look at the rules of origin in the Caribbean Basin Initiative?

Mr. **Thomas**. Yes; we went over them and looked at them in terms of trying to structure them, and one of the things I don't want to do is do the committee's job, but something along those lines. I don't want to force any specifics on you, and those are acceptable.

I have looked at others. Anything is acceptable, which indicates that you don't have the transshipment and that you don't have the processing aspect.

Mr. **Downey**. I thank the gentleman.

Chairman **Gibbons**. Mr. Pease.

Mr. **Pease**. Thank you, Mr. Chairman.

I too would like to express my appreciation to our colleagues for testifying today. I was particularly interested in the comments on tomatoes. We have heard a lot of talk about California and Florida. My understanding is that Ohio is the second largest tomato growing State in the Union.

Mr. **Thomas**. That is right.

Mr. **Pease**. While I happen not to have any large commercial tomato farms in my district, the congressional district represented by our colleague, Congressman Latta, has a very, very large tomato industry, both producing and processing, and the number of people from Ohio who are in the processing business have contacted me to express concerns similar to those raised today by you folks from California and Nevada.

So, I do have a great interest in this. I think it is correct that some people have so much faith in free trade and the principle of the absence of restriction that free trade is an end in itself, regardless of what might happen to the victims and who they might be.

I generally like to subscribe to free trade, but I do think that as Members of the U.S. Congress, we have some right, indeed some obligation, to look after the interests of the citizens and farmers and producers and workers of the United States. And you have served us very well, I think, today by bringing these matters to our attention.

Let me just touch on a couple of points. In terms of productivity, my understanding is that especially in California, the tomato growing industry is the most efficient in the world. We are not talking about an archaic industry or one which is inefficient, or one where labor rates are too high, or there is no mechanization. My understanding is that in terms of picking tomatoes, it is 100 percent mechanized in California, so that we are, from the point of view of competitiveness, able to stand up against any producers anywhere in the world.

Would you agree with that?

Mr. **Shumway**. Yes, Mr. Pease. I think that is true. In California, I am not sure about the Ohio crop, but virtually all of our tomatoes are meant for processing and consequently they don't need to be harvested with the same degree of delicacy perhaps that you would require from a fresh tomato production.

They are mechanized. The processing facilities are highly mechanized and overall from the beginning seed through the harvest through the processing, it is a very efficient industry. I don't have figures here that would prove that, but take my word for it. It is widely acclaimed as a very efficient production.

Mr. **Pease**. Well, Mr. Thomas gave us some statistics before which said that the landed cost of tomatoes from Israel is lower than that in the United States and were it not for the current tariff, the price would be lowered to the buyer in the United States.

If the level of mechanization is very high and it is an efficiently run industry, what accounts for the lower price in Israel?

Mr. **Thomas**. We have no margin for improving the productivity. There will be no breakthroughs. All of the breakthroughs have been made. You have indicated varieties. University of California Davis has been excellent in producing varieties that when you see the tomato trucks go by 4 feet deep in tomatos, you think there is already tomato juice on the bottom. They are able to stand the handling and are fully mechanized.

The labor unions have not asked for exorbitant wages, so there is no place for us to squeeze. When we put that product on the shelf in New York and having paid the relatively expensive shipping costs in the United States, the only answer that you can give for the Israeli product coming in, because they use the same varieties and the same processing machineries purchased in the same places that we do, same technology, producing it, it has to be basically wages paid and shipping costs.

It is the structure of the economic arrangements in Israel and it is, to a degree, the subsidizing operation in terms of the shipping.

Mr. **Pease**. I arrived a little late, so I may have missed this. Did you comment at all on the nature of the subsidy that you see in Israel?

Mr. **Thomas**. We have talked in terms of the economics, and that is really secondary to my concern about practices that have been carried on in terms of assisting people to make market penetration either in terms of the tax structure in Israel or especially in terms of the shipping.

We are going to have testimony from producer representatives and processor representatives later in the day. They have had people over in Israel examining the way in which they handle their product with their knowledge background, and I am sure they can be much more specific in terms of where they think the sensitive points would be. And I would rather defer to their understanding of the industry.

Mr. **Shumway**. Could I just comment in that regard? We do have a report, and I am sure members of the committee have this as well, called "The Processing Tomato Industry of Israel," by a professor at the University of California Davis who does talk about the issue of subsidies. He does not point to any direct subsidies but he said it is not clear whether there are capital grants to companies or cooperatives, kabutz, or the construction of new plants or purchase of new equipment which does not show up as debt on the firm's financial statements, and it is obvious that the Government has paid subsidies of $11 per ton in 1982, $3.78 per ton in 1983, and supposedly abolished in 1984, but that fact needs to be verified.

He makes the point that because Israel has become so competitive in the entire world arena, that that fact bespeaks some subsidies lurking somewhere in the background. We simply don't have the tangible proof, and I am not in a position, of course, to supply that to the subcommittee, but experts do believe that perhaps it is there.

Mr. **Pease**. Well, I would like to comment on that point. We talk a lot on the subcommittee about a level playing field and how we should not protect American firms if there is a level playing field.

I think you have made the point that it is very difficult sometimes to pick out what the subsidies are and even more difficult to prove them. I imagine if this law became effective, Israeli farmers, producers, and processors would take advantage of it. It is a very significant improvement—expansion of shipments of processed tomatoes to the United States—during which after a year or so, the American producers would have to file a subsidy case which would drag on for several months, and it would be essentially 3 years or more before the industry could expect any relief.

We have also heard a lot of testimony in this committee about the very high cost of filing a subsidy case. It is OK for a U.S. steel company to file a subsidy case, but for an industry, particularly for an individual processor in the United States to do it, while the remedy is theoretically available, it seems to me is not practical, it may not be nearly so available to our——

Mr. **Downey**. If you would yield.

Let me point out again with regard to the subsidy because I think it is important. The California League of Food Processors stated in a letter in February of this year, "We have no information to indicate that Israel is subsidizing its production processing for export of any fruit or vegetable product. Indeed, the only case where the U.S. Government found subsidy was on cut roses from Israel and the Netherlands which exports more roses to the United States."

Also according to a study by a gentleman by the name of Lee Gayoron from the University of California. Israel no longer subsidizes tomatoes.

Mr. **Shumway**. That is the same study that I referred to here.

Mr. **Thomas**. No longer. It says no longer.

Mr. **Downey**. No longer.

Mr. **Pease**. The subsidy which you mentioned before which you just referred to, Mr. Downey, were those direct cash subsidies, the ones that have hopefully been phased out? Are they direct cash subsidies?

Mr. **Shumway**. In 1982 and 1983, they were. They have been phased out apparently in 1984.

Mr. **Thomas**. There are hidden ones that you can't see.

Mr. **Pease**. If I could reclaim my time for a minute, that report, I gather, does not deal with the indirect subsidies such as those which Mr. Thomas refers to which may be inherent in the system, would that be correct?

Mr. **Downey**. I don't know, but I think the gentleman has raised an interesting point. I also don't think we want to talk about hidden subsidies that are hidden not only from our eyes but from the Israeli intentions, so let's find out before we impute to them intentions that they may not be involved with. I don't think you want to suggest that because people have decided to form cooperatives and work on a kibbutzum that this is somehow the competitive disadvantage to our country. I don't think you want to make that argument.

Mr. **Pease**. I do think we need to keep in mind a distinction, and I guess that raises a question in my mind whether our antisubsidy laws deal only with intentional Government subsidies or whether they deal with structural subsidies that are the result of the system of the country.

Chairman **Gibbons**. What I have tried to do and what I believe our subsidy laws do, is to deal with any subsidies that are injurious to our industries. That is the test. Everyone's system is a little different. What is a subsidy in terms of one person's eyes is not a subsidy in terms of another person's eye. Subsidies are hard to measure. They are cleverly disguised and you have to go after them vigorously.

The test should be, is the subsidy injurious?

Mr. **Pease**. I thank the chairman very much. I will defer to other members of the committee.

Again, I appreciate the testimony from our colleagues.

Mrs. **Vucanovich**. Would the chairman excuse me?

Chairman **Gibbons**. Yes, ma'am. We appreciate your coming very much.

Mr. **Frenzel**. Thank you, Barbara.

Chairman **Gibbons**. Mr. Frenzel, do you have a question?

Mr. **Frenzel**. I do, Mr. Chairman.

I have been sitting here enjoying the metamorphosis of the gentleman from New York. I am glad to see him on the cutting edge of the free trade movement.

Now, if Mr. Thomas will make Mr. Downey's Bread for the World amendment to the Israeli free trade bill, and demand a food plan from them, we will have come full circle in our trade discussions.

I yield to the gentleman.

Mr. **Downey**. If Mr. Thomas can find that three out of four Israeli children are starving, I would be more than happy to have a Bread for the World amendment.

Mr. **Thomas**. Based upon U.S. aid between $800 and $1,000 per person in Israel and all the support we have given them, I don't think you are going to find that going on.

Mr. **Downey**. I think you will find that the Israelis have a different value system, and that is why their children are not starving, whereas some of our Latin leaders have a different view.

Mr. **Thomas**. Are we talking about Arabs in Israel?

Mr. **Frenzel**. I yield to the chairman and demand regular order.

Chairman GIBBONS. This is too good to pass up.

The purpose of this legislation and all of our legislation is to try to improve the standard of living of Americans everywhere, all Americans, and at the same time to try to improve the standard of living of other people around the world. That is the purpose of the legislation. That is the ultimate test.

Now, Mr. Frenzel.

Mr. FRENZEL. Thank you, Mr. Chairman, reclaiming my time.

I would like to go to Mr. Shumway.

On page 1 of your statement, you indicate that Israel is not a signatory nation to the GATT. I believe that Israel is a contracting party. You may mean that it hasn't signed some of our codes from the 1979 agreement.

Mr. SHUMWAY. That is correct.

Mr. FRENZEL. It has signed one, I gather.

Mr. SHUMWAY. That is correct. I didn't mean to give the impression that they have totally avoided any kind of responsibility in that regard, but, generally, as we have, they have not been signatories.

Mr. FRENZEL. Thank you.

I go back to Mr. Thomas.

Your five points, it would seem to me that some of them, at least, would seem to be not too difficult to put into any kind of reasonable legislation, particularly the first three. I don't know how we can guarantee you that we don't become a residual market. I am not sure I would want to undertake that in the law.

But I think that we could have one of those substantial transformation amendments, but I think 100 percent domestic content, which you suggested, is a little heavy.

Mr. THOMAS. I am willing to negotiate. I just thought I would start at that point.

Mr. FRENZEL. If you could tell the Israelis how to grow diamonds, they could probably then cut their own, but in the meantime I think they have got to use other people's.

Mr. PEASE. Would the gentleman yield?

Mr. FRENZEL. Yes, sir.

Mr. PEASE. As cosponsors of H.R. 1234, the auto domestic content bill, Mr. Downey and I would probably settle for 90 percent.

Mr. FRENZEL. Well, you took 85 on buses, so I figured we could maybe get you down a few more percentage points.

I think the discussion has been valuable. I am sure it is not the author's intention to direct any damage on the U.S. industries. On the other hand, I hope it is not the author's intention to provide unnecessary protection for healthy competitive industries. I suspect that before we are through we are going to have to visit Israel. We are going to have to verify the subsidies which have allegedly been paid and may allegedly be operating at this point.

I am delighted to hear people defending the Israelis against these allegations. I would like to hear them defend other trading partners as well against unfounded allegations of the same kind.

I think a subsidy is not a subsidy until it is proven, and we can talk about them all we want, but it simply is inflammatory rhetoric until we actually can quantify or measure subsidies and make a real showing. But I think you have helped our discussions of the bill a great deal, and I yield the balance of my time.

Chairman GIBBONS. Well, I thank you gentleman for appearing and for the vigorous presentation of your case.

Mr. THOMAS. Mr. Chairman, may I make a couple of concluding statements? I agree totally with the chairman's concept of the whole purpose of any trading relationship, and that is that both sides will mutually benefit.

And I think where I am coming from is that I just want to make sure that we understand the consequences in terms of the potential of severely impairing very narrow segments of our agricultural economy to the benefit of the other side. We want to be sensitive to that.

When you look at the general volume of agriculture, you will not see the problem. We are talking about pointed, targeted, particular areas.

And, finally, to the gentleman from New York, that in terms of the secondary market, in terms of the difficulty of Israeli agriculture, in terms of the relative unproductiveness of the operation and their willingness to get out, I think the best thing we could do for the Israelis is to make sure that we do exclude a number of products and then they will move more rapidly to a higher and better use of the land.

Chairman GIBBONS. Thank you very much.

Mr. SHUMWAY. Thank you.

Chairman GIBBONS. I am going to ask the American Jewish Committee, Mr. Moses, to come forward, but I am going to have to excuse myself now. I am involved in the tax conference, and I will ask Mr. Downey, who is the principal sponsor of this legislation, to preside. He has promised me that he will remain here during all of this today.

Mr. DOWNEY. I will be fair, too, Mr. Chairman.

Chairman GIBBONS. Oh, I know that.

Mr. FRENZEL. You will be very lonely.

Mr. DOWNEY. I suspect I will be very lonely.

Chairman GIBBONS. Go right ahead.

Mr. MOSES. Thank you, Mr. Downey.

Mr. Chairman, it is good to see you, though only briefly.

Chairman GIBBONS. Thank you. I want you to know I will read your statement thoroughly.

Mr. MOSES. This is a simple matter compared to the Internal Revenue Code, so you are going on to a higher, more noble cause.

Chairman GIBBONS. Thank you, sir.

STATEMENT OF ALFRED H. MOSES, CHAIRMAN, NATIONAL EXECUTIVE COUNCIL, AMERICAN JEWISH COMMITTEE, ACCOMPANIED BY HOWARD KOHR, ASSISTANT WASHINGTON REPRESENTATIVE OF THE AMERICAN JEWISH COMMITTEE

Mr. MOSES. Mr. Downey, I appreciate the opportunity to testify before the subcommittee on this important legislation. As the chairman indicated, my name is Alfred Moses. I am speaking today on behalf of the American Jewish Committee, of which I am chairman of its national executive council. With me is Mr. Howard

Kohr, the assistant Washington representative of the American Jewish Committee, who works with us on matters such as this in conjunction with Mr. Bookbinder, who would also be here were it not for the fact that he is on the west coast.

The American Jewish Committee supports H.R. 5377 and asks the Chair that the prepared statement which has been handed to the subcommittee be admitted into the record.

Mr. DOWNEY [presiding]. Without objection, it will be entered.

Mr. MOSES. I do not intend this morning to read my prepared testimony, but I would like to comment on some of the highlights.

It is our belief, indeed we are persuaded that the proposed free trade area will open export opportunities for U.S. manufacturers. As the subcommittee knows, the current balance of trade between the United States and Israel is favorable. The U.S. exports, apart from military support, many hundreds of millions of dollars more than it imports from Israel. The basic economic premise is that the freeing of restrictions on trade will have an incremental effect for our manufacturers, for the U.S. economy—greater than that for Israel.

That is good. It is also consistent with what all of us learned in school which was that free trade is in the interest of consumers everywhere. If prices are lower, everyone benefits. If trade gravitates to the more efficient producer, the beneficiary of that is the consumer who pays less for the products that he or she purchases.

So that the basic concept which we are discussing today is consistent with our principles of trade, our history and in terms of the relationship between the two countries, the United States and Israel, should serve to further that important relationship which has political and strategic overtones as much as it does economic considerations.

In that regard, I do not think it unimportant to note that the furthering of trade between our country and Israel should have substantial economic benefit for Israel. That is not unimportant given the dire economic circumstances presently confronting that small democratic ally. Those economic circumstances are in large part a result of some 36 years of very substantial military expenditures which the Israeli economy has borne simply as a result of the necessity for Israel to defend its borders in a largely hostile Middle East.

We are not unmindful in this country of the importance to our own global thinking in having a viable Israel as a bulwark against any thoughts there might be in the Soviet Union to intervene in that troubled part of the world.

For their own part, the Israelis are redressing their economic difficulties. There have been budgetary restrictions, freezes on hiring of persons in the governmental sector, a reduction in subsidies which have heretofore gone to enable Israelis, many of whom came from poor origins in Mediterranean countries, persons who arrived in Israel over the past 30 some years who, but for subsidies in basic commodities, would not have been able to live. Those commodities, incidentally, are available to Arab citizens of Israel as well as to the Jewish citizens of Israel. There is no distinction in that regard. There was some question this morning as to whether Arabs are going hungry and you, Mr. Downey, said that is simply not the fact, and you, of course, were correct in your statement.

The Israelis are going through a reduction in their standard of living. There is no other way of stating it. In terms of economic well-being there is a reduction in real wages which Israelis are receiving. It is part of the painful process of trying to redress the economic difficulties which that country is facing.

We believe that the free trade agreement will open research and development opportunities for U.S. companies in Israel, and this, too, is not unimportant. As this subcommittee has heard from others, there are over 100 U.S. companies presently in Israel. They benefit from the technological and scientific base that exists in that country, and from the splendid institutions such as Hebrew University, and the Weizmann Institute that have a worldwide reputation for advanced work in research and development.

Having this technological base available to our companies already present in Israel, should redound to the benefit of manufacturing processes in this country which can utilize some of the advanced developments that have occurred in Israel, particularly in the medical technology field—a concern for all of us, in computer sciences, and in electronics. We benefit from the symbiotic relationship that exists between the advanced state of research and development in that tiny country and our own manufacturing ability which is second to none.

We believe that the free trade area also will benefit U.S. companies in competing more effectively within the European Economic Community. By 1989 there will be no barriers to Israeli imports into the EEC countries. The reciprocal of that will also be true. The EEC countries will be able to export their products duty free into Israel. We do not want that market, which is an $8 billion market in Israel, to be excluded from U.S. exporters and manufacturers because there is a presence there of duties, impediments to the importation of goods from the United States which does not exist with regard to goods being exported to Israel from the EEC countries.

There will also be opportunities to move U.S. origin raw materials into Israel—not for transshipment as such into the EEC, there certainly should be rules of origin that would govern that. There will no doubt be requirements for substantial transformation in the recipient country, be it Israel or wherever. But the fact remains that because of Israel's special relationship with the EEC, U.S. exporters will be able to move goods into Israel for substantial transformation and then shipment into that important European market.

There has been testimony this morning, and I understand you will be hearing additional testimony today, Mr. Chairman, as to whether the proposed FTA will adversely affect U.S. jobs. I think it is important in that regard to look at this somewhat more globally than perhaps the distinguished Members of the Congress addressed a few moments ago.

A free trade area by its nature is reciprocal. There no doubt will be instances where specific manufacturers in the United States will face increased competition as a result of a free trade agreement, just as there will be instances in Israel where manufacturers in that country will face increased competition from U.S. manufacturers. But as they say before every prize fight, "May the best man win," or if one is more grammatical, "May the better man win."

That is free trade. We do not want to be protecting less efficient industries, manufacturers, other companies from the competition of more efficient companies and businesses whether in Israel or in the United States. That is the very concept of free trade.

On the larger scene, with regard to farm products, as Mr. Thomas stated to us, the balance in favor of U.S. exports far outweighs the comparatively small imports from Israel into the United States. If you look at a specific limited industry, as we heard this morning with reference to tomato paste and with reference to olives, Israel's presence is not enormous. Israel's potential is limited. You are talking about a present potential of approximately 5 percent of U.S. production, and of that 5 percent, more than 50 percent of it goes to the EEC for obvious reasons. It is just cheaper to ship from Israel to Europe than to ship to the United States.

The potential, in terms of natural resources, to expand Israeli production is so limited that it is difficult to conclude that even if we were to look at the specific industry involved, be it tomato paste or olives, that Israel poses such a threat that there need be any concern in terms of substantial loss of U.S. jobs. The facts simply don't indicate that that is a likely conclusion.

I did hear earlier some reference to the kibbutzes in Israel and the implied unfair advantage that they have because they are collective in nature. Those of you who have visited the kibbutzes in Israel know that they are profit oriented. They distribute their profits equally. I do not believe that we in the United States have a great concern as to whether 100 people band together, work hard and distribute the product of their labors equally or whether the bulk of the profits from an enterprise go to ownership in a more limited form. It seems to me that is not a concern of ours and, as Mr. Frenzel pointed out, as best we know there is no subsidy operating in those areas that would tilt the playing field, to use Mr. Pease's term.

Our conclusion is that free trade by concept is beneficial to consumers in the United States, that the promotion of efficiency benefits persons generally, and that the Israelis do not have an unfair advantage. The relationship between our two countries is one that favors closer ties in economic areas and that, in general, this is legislation which in principle is consistent with what we believe and practice in our own country.

I am impressed by a sentence in the prepared testimony of Mr. Till, whom you will be hearing from today speaking on behalf of the United Midwest International Corp., in which he stated that enhanced trade will be paramount to the survival of free societies worldwide. Propensities toward free trade will minimize the need for protectionism. I could not state it as well, and I would like to conclude with that comment from Mr. Till.

[The prepared statement follows:]

STATEMENT OF ALFRED H. MOSES, ESQ., CHAIRMAN, NATIONAL EXECUTIVE COUNCIL, AMERICAN JEWISH COMMITTEE

H.R. 5377

Thank you, Mr. Chairman and distinguished members of the subcommittee, for the opportunity to testify before you on H.R. 5377, a proposal to create a free trade area between the United States and Israel.

My name is Alfred Moses and I am the Chairman of the National Executive Council of the American Jewish Committee and formerly served as special advisor and special counsel to the President of the United States. The American Jewish Committee is the oldest human relations organization in our country. Among its concerns is the special relationship that exists between the United States and our democratic ally, Israel.

I appear before you in support of H.R. 5377. I want to thank Chairman Gibbons and Congressman Downey for their initiative and leadership in introducing this important proposed legislation. The AJC is convinced that the passage of this bill and the actual implementation of the agreement will be of benefit both to the United States and Israel. We say this for the following reasons:

1. The proposed FTA will open new export opportunities for U.S. manufacturers. At present Israel is an important export market for U.S. manufacturers. These exports exceed $1.5 billion of goods annually, exclusive of military exports. The Department of Commerce estimates that exports from the U.S. to Israel generate many thousands of jobs in the U.S. An increase in exports

will expand job opportunities in this country even further.

Israel offers an $8 billion market for U.S. manufacturers. The reduction of Israeli tariffs on U.S. products will enable U.S.-manufactured goods to be more competitive with imports from Europe, which are already entering the Israeli market at reduced tariffs under the bilateral agreement between Israel and the EEC. It is important to note that tariffs on EEC products entering Israel will be reduced to zero in 1987.

2. The proposed FTA will provide Israel with an opportunity to reduce her balance of payments deficit with the United States. Israel currently has an annual deficit in her balance of payments with the United States of $300 million. In 1982 exports from the U.S. to Israel were $1.5 billion, while exports from Israel to the United States were only $1.2 billion. The Congress is aware of the acute financial situation facing Israel. These economic difficulties stem in large part from the enormous military burden Israel has had to assume in assuring her survival in a largely hostile Middle East. In strengthening trade between our country and Israel by means of a free trade agreement, we will be taking a significant step towards strengthening Israel's economy in a way that is consistent with our country's long-standing commitment to the principle of free trade and will help Israel to

maintain her viability as a bulwark against Soviet adventurism in a critically strategic part of the world.

It is important to note that Israel, for her part, is taking measures independent of the proposed free trade agreement to redress her economic difficulties. These steps include substantial cuts in Israel's budget, a reduction in Israel's long-standing policy of government subsidies for basic goods and services designed to provide a minimum economic foundation for a large, and for the most part, poor, immigrant population, a freeze on government hiring, and a forced decline in real wages for the private sector.

3. The proposed FTA will open new R&D opportunities for U.S. companies in Israel. Currently there are over 105 U.S. companies with an Israeli presence. Many of these companies are conducting R&D in Israel using technology developed by private Israeli companies and public institutions such as Technion, the Weizmann Institute and the Hebrew University. These U.S. companies benefit from substantial grants by the Government of Israel and have made substantial breakthroughs in medical technology and computer science, to name but two significant areas. The proposed FTA will expand R&D opportunities in Israel for these companies as well as other U.S. companies entering Israel to gain access to its technology and other resources.

4. The proposed FTA will provide new opportunities for U.S. companies operating their plants in Israel to sell their products in Europe. By 1987 Israel will be able to export its products to EEC countries duty free. At present U.S. companies are unable to sell their products in Europe without the imposition of substantial duties. By adopting the proposed FTA, there will be increased opportunities for U.S. companies to move U.S.-origin raw materials into the stream of commerce reaching EEC countries via Israel.

5. The proposed FTA will not adversely affect U.S. jobs. We are concerned about the high unemployment that still exists in America. We do not want to suggest any plan that would contribute to the lessening of job opportunities here at home.

We believe the proposed FTA will add jobs for Americans for the following reasons:

(A) The FTA will increase opportunities for the export of U.S. products to Israel.

(B) U.S. manufacturers will be able to sell more products -- employing more workers in the U.S. -- as a result of sales in EEC countries of Israeli products containing U.S. origin materials.

(C) There will be an expansion of products made in the U.S. using new technologies developed as a result of R&D work in Israel.

Israel is not a low labor-cost country. The Israeli-made products that will benefit from the proposed FTA will be in the high technology field and will not impact the smoke stack industries here at home that are still experiencing the downward effects of the recent recession.

Elmer Winter, Honorary President of the American Jewish Committee and Chairman of the Committee for Economic Growth in Israel, has just returned from Israel and I wish to include his observations of the current state of Israel's economy as part of my testimony (see attached).

Mr. Chairman, by establishing a Free Trade area we will be taking a step toward strengthening a key ally in the Middle East, helping a developing democratic nation become more economically independent, strengthening U.S.-Israeli relations, and helping the U.S. economy.

Thank you, Mr. Chairman.

[By subsequent consent, the following was submitted for the record:]

STATEMENT OF ELMER WINTER, HONORARY PRESIDENT, AMERICAN JEWISH COMMITTEE

Mr. Chairman,

The attached are some personal observations of the current state of the Israeli economy by Mr. Elmer Winter, Honorary President of the American Jewish Committee, Chairman of the Committee for Economic Growth in Israel, and founder and former president of Manpower, Inc. These observations were made during Mr. Winter's most recent visit to Israel for the 1984 Isratech. Isratech is Israel's annual trade and manufacturing show. These observations illustrate how Israel is working to redress her current economic difficulties. He also mentions some key new technological developments that will benefit U.S. manufacturers and consumers.

QUESTIONS & ANSWERS

1. Is there an austerity program in effect in Israel?

Yes, until the advent of the elections. Subsidies have been cut, with the price of electricity, for example, almost covering its true cost. The government has maintained a hiring freeze since October, and government budgets have been cut in almost all ministries. However, the approaching election threatens to undermine the reasonably sound steps that have been taken in the wake of the 'October crisis'.

2. How are Israelis adjusting to the cutbacks in subsidies?

Although significant cuts in price supports have been made, the ultimate effect on living standards remains slight. Even among the lowest income groups, which most benefit from subsidies, relatively, subsidies amount to only 3.5% of total consumption. Furthermore, cutbacks are being made gradually so that the effect is muted. At present, the rate of subsidization has been reduced to 100% for bread and public transportation, and 50% for the rest of the food products. The target for this year is 25%, except for bread and public transport which will be somewhat higher.

3. How serious are the problems emanating from a $22 billion Israeli debt?

The most serious problem is the cost of the debt service. In 1983/84, debt service cost $4.32 billion dollars. In 1984/85, debt service will cost $6.82 billion, an increase of $2.5 billion, or almost 60%. This cost swallows up the whole of the $2.17 billion saving in government spending which the Finance Minister was able to generate with great effort. However, Israel can stand up to the payments, and the debt structure will improve in the coming years. Overall debt structure is reasonable, with most of it to friendly lenders--U.S. government and Jews abroad. There does not appear to be significant pressure from private banks for repayment of the loans.

4. Has the standard of living of the Israelis been cut by 10%?

It is difficult to measure the standard of living and quantify it exactly. Real income, compared to January 1983, appears to be down by approximately 10% in real terms, but there is no indication that that is the case among the self-employed. Many sectors are flourishing, and in high-tech and computer jobs, salaries continue to climb. However, there is a recessionary mood which lurks behind the relative calm. Retail business activity was down 4% in real terms in the fourth quarter 1983, and the trend continues in 1984. Prior to the elections announcement, apartment purchases were in steep decline.

5. Has unemployment increased? If yes, to what extent?
The unemployment rate for the fourth quarter 1983 stood at 5.3% vs. 4.3% (3rd qtr). Unemployment has increased, though it is still modest. Treasury forecasts for the fiscal year expect an unemployment rate of about 6.5%, and the rate is increasing towards that figure (90,000) gradually. In January 1984 alone, there were 4,000 new filings for unemployment compensation.

6. Has the unemployment affected primarily the Arabs who come in from the West Bank and Gaza Strip (Judea and Samaria) to work in Israel?

No. The 90,000 Arab workers from the territories do not compete directly with Israeli workers, and they have a stable position in the building and agriculture sectors. Indeed, in these sectors, there is a labor shortage, with some 6,000 entry level openings available.

7. Has the Defense budget been cut?

Yes. Budgeted outlay for this fiscal year is $4 billion, down from $5.36 billion in '83/84. However, last year was an exception in that direct defense imports were unusually high. However, even domestic spending for defense is cut by $450 million.

8. Has the government reduced its workforce?

Yes. Since October 1983, a hiring freeze has been in effect, and only through appeal to a special committee can new positions be filled. Through attrition and retirement, it is expected that the government's personnel will decline by about 4,000.

9. What is the effect of the devaluation of the shekel compared to inflation?

Right now, they are tracking each other closely. Overall, they keep pace. In 1983, while inflation in shekel terms grew by about 190%, devaluation of the shekel vis a vis the dollar was about 220%. A recent report showed that in dollar terms, the cost of standard items in Israel has remained steady.

10. What were some of the exciting new technological developments that were on display at Isratech?

There were many exciting displays, and many of them most impressive from the point of view of the technological sophistication. Often, there were products which were already existing but which had been refined and perfected and which had already been field-tested and proven. A few highlights:

*PYTHON 3: a third-generation, all-aspect air-to-air missile, with an infra-red detector

*SECURE-E-KEY: patented world-wide, a unique locking mechanism with no cylinder--the almost-infinite combination sloped teeth do not even require the key to be turned...

*COMPACE 51-PACER: a computerized monitor for cardiological applications, the only product on the market which can continuously analyze the correlation between the pacemaker and the heart...

*INSULIN PUMP 209: A portable insulin infusion pump, only 150 grams, less than half the size of currently available pumps...

*MIXXOR: a liquid-liquid separation device incorporating a new technology which won an award for being one of the 100 most significant technological advances by the editors of Industrial Research & Development magazine...

Even more impressive than one particular product was the impact of these, and dozens of others, concentrated together at Isratech.

11. In view of the problems confronting Israel at this time, do you believe that it is realistic to expect Israel to meet the goal of financial independence in 1990?

It certainly is possible. In six years, a great deal can happen. Six years ago, some of today's success stories--AVX, Intel, Telrad--had barely begun, while whole other fields--biotechnology, for example--were just getting started. If there are other success stories at the start of their path now, and it is likely that there are not a few, then there is reason to be optimistic. After all, Israel need not solve all of its economic problems in order to be financially independent: it must merely increase the income from its exports to more than cover the cost of its imports--without help from Uncle Sam, or over-borrowing. Already exports are increasing at a substantial rate, and the advent of the Free Trade Area with the U.S., increased buy-back agreements, increased investment in key growth sectors, and increasing Israeli competence at doing business internationally, and especially with the U.S., could well bring about, when combined with other factors at play, a massive increase in exports without a parallel increase in imports.

Thank you Mr. Chairman.

Mr. DOWNEY. Thank you, Mr. Moses.

Let me ask you, and I think you have already addressed the question that I have, and that is to Mr. Thomas, Mr. Shumway, and Mrs. Vucanovich who are concerned, as they should be, with their own constituencies that might be adversely affected.

The answer to them would be what, to summarize quickly?

Mr. MOSES. I have a sense, Mr. Downey, that we Americans can adjust to economic competition. I do not know the details of their particular constituent interests. I do know in a kibbutz, what profits there are are distributed equally and go into the joint enterprise to increase the standard of living of the persons there. Persons do not have personal wealth. It does not go into their bank accounts.

I do not know where the profits from the tomato paste industry go. That is really not my business, but I would like to believe that we Americans, given a level playing field, can compete with anybody in the world if we roll up our sleeves and go to work.

The last thing that we should be asking is to keep competitors out of our ball park. Let's bring them in and play the game and see how it goes. Unless there are compelling reasons that show that it is unfair, then my answer would be if there is serious dislocation, and there could be some dislocation that is the effect of free trade. We certainly have it within our country here within the 50 States. We are the largest free trade economy in the world. There is no reason to believe that by expanding that free trade economy to include a very tiny country that does not have low wages, that shares our democratic institutions, that consists of a bare 3.5 million people, this will somehow blow any significant segment of the U.S. economy out of the water. I just don't see the evidence that would compel me, and my profession is that of an attorney, to reach the conclusion that it is going to have dire consequences.

Mr. DOWNEY. The gentleman from Pennsylvania, Mr. Schulze.

Mr. SCHULZE. Thank you, Mr. Chairman. Thank you, Mr. Moses.

You have used the term that you didn't think there would be a substantial loss of jobs in the United States but that there would be some dislocation.

Mr. MOSES. Possible dislocation.

Mr. SCHULZE. As I look at the people who are going to testify after you, most of them are opposed to this agreement. There are various food processors, Farm Bureau, Florida Citrus Mutual, the United Fresh Fruit and Vegetable Association, American Dehydrated Onion and Garlic Association, the American Rose, Roses Inc. They all say things such as exclude fresh-cut roses from duty-free treatment otherwise provided for by the legislation.

Their concern is about jobs, and I don't know whether it is as much profits as jobs that leads them to that concern. There are many of us that have concern such as the Commonwealth of Pennsylvania, where we are going through an economic dislocation with the slide in the steel industry. Yes, it might be small, but when you are talking in human terms, it is easy as an attorney testifying in Washington versus looking somebody in the eye who might lose their job and saying, "You don't understand, it is for the greater good." It really is difficult.

From your testimony, I presume you don't think we should worry about any exemptions even where there are possibilities of impact on employment. Do you think we should just ignore that and go ahead? What would be your solution?

Mr. MOSES. Well, that is a question that should be answered. I had to spend 2 weeks in Pittsburgh. I know what economic dislocation is. It is painful. But I don't think that is what we are talking about here today. Israel is not a smokestack economy. It is to some extent an agricultural economy. It is largely a high tech economy.

Mr. SCHULZE. You are right, but the rose growers and tomato growers in Pennsylvania are coming to me and saying, "You are going to impact us. We are already impacted. Our unemployment is high."

Mr. MOSES. What we are talking about in the rose industry is Israeli imports representing less than 1 percent. The guy isn't going to lose his job.

Mr. SCHULZE. You said there should not be a substantial loss of jobs, but you said there would be some dislocation. Now you are saying that there will not be.

Mr. MOSES. Well, what I am saying, Mr. Schulze, is when you are dealing with the small economic base that exists in Israel, when you are talking about importation of a product that presently represents 1 percent or less of the importation of roses, when you are talking about the movement of roses some 6,000 miles, I would have to come to the conclusion that your good rose growers in Pennsylvania, particularly in the Lancaster area that you come from, can compete very effectively. And when I look at the overall dimensions of the problem, when I see the opportunities that free trade presents for U.S. agriculture generally in approaching the Israeli market, my conclusion is that the overall benefit will be favorable to the U.S. economy and not adverse.

Mr. SCHULZE. You are saying I should look them in the eye and say, "Look, we are providing jobs for people in Kansas."

Mr. MOSES. No; right in your own district. I wouldn't say Kansas.

Mr. SCHULZE. You are saying we make it up with other agricultural products?

Mr. MOSES. Yes; and there are other products in your own district. My sense of this is that we have to look at this as a nation.

Mr. SCHULZE. Can you create a market for mushrooms over there?

Mr. MOSES. I know something about that, and I think it is important to your area. Roses are a fair example, and my response is this, we are talking about such an insignificant portion of even the import segment of that market that I think you can reassure your constituents that a free trade agreement with Israel is not going to have an adverse economic impact.

In that regard, I know you will want to listen this afternoon very closely to determine whether the opposition that will be expressed to this agreement is the thin edge of the wedge argument; namely, that if this agreement goes forward, as I think it should and expect it will, that this will open the door, as I heard earlier from someone, to Morocco, to "X," "Y," and "Z," whatever the countries may be.

Well, obviously, that is a matter that this subcommittee will take up and look at on its own merits. There is no precedential value per se that necessarily adheres to a carefully reviewed agreement between Israel and the United States. When we move to other countries, the circumstances will be different, and this subcommittee will have an opportunity to look at those situations to determine whether they merit, in the overall interest, a free trade agreement.

Mr. **Schulze**. Why has Israel been reluctant and dragging their feet a little bit on being a signatory to some of the codes?

Mr. **Moses**. Mr. Schulze, I don't know the answer to that. I obviously cannot speak for the Israelis.

Mr. **Schulze**. It would make this process a lot easier.

Mr. **Moses**. I trust there is someone in the audience that will convey that message. Mr. Frenzel referred to the fact that Israelis have adopted some of the codes, and the implication is that others have not. I think if the Israelis have not responded to that in their own appearances before the subcommittee that they should do so, and I will take it upon myself to communicate that to them with the suggestion that they respond to your question.

But I am not in a position to respond on behalf of the Israelis.

Mr. **Schulze**. Doesn't the European Community now exclude several Israeli products which they considered to be import sensitive from the European point of view in the relationship between EEC and Israeli trade?

Mr. **Moses**. Mr. Kohr may know more about that than I do, but my understanding is that it is an evolving situation and by 1989 there will be the complete abrogation of barriers to trade. The phasing in process obviously works its way through the political system. We have read a great deal in the paper about protecting French agriculture, in particular French milk producers, et cetera, while this transitional phase is in process.

At this time I can't respond with respect to specific Israeli products and what barriers may still exist, but the goal and the expectation is by 1989, there will be a complete absence.

Mr. **Schulze**. If this committee is to consider any limitations, would it be better to consider some sort of phaseout rather than just straight limitations similar to the EEC experience?

Mr. **Moses**. I would think so, Mr. Schulze, but it would be my recommendation that this matter be left with our trade representative under broad authority. The agreement would not abrogate the restrictions on dumping or countervailing duties. There would be the protection that should exist to make sure that the umpire is calling balls "balls," and strikes "strikes."

But to go beyond that and to look to particular instances and say that here and now there should be protection even on a phased basis seems to me to be contrary to the objectives and the principles involved. It would be an invitation for reciprocal treatment on the other side, and if that would not vitiate the objective of the agreement, it would certainly make it less effective.

Mr. **Schulze**. Thank you very much.

Mr. **Downey**. Mr. Pease.

Mr. **Pease**. I appreciate your testimony, Mr. Moses.

Mr. **Moses**. Thank you, sir.

Mr. **Pease**. I would like to emphasize at the outset that I think what we are trying to do in the subcommittee is to determine whether this makes sense or not. That is our job on this subcommittee with all legislation, and I do not approach it with a prior bias.

You have said that establishing a free trade zone for Israel does not necessarily set a precedent for other nations. I think in the last hearing the AFL-CIO cited a number of trade agreements that we are signatory to which would seem to require reciprocal treatment.

Have you examined the testimony of the AFL-CIO, and can you comment on that?

Mr. **Kohr**. We haven't examined thoroughly the entire statement of the AFL-CIO, but our understanding is that their primary concern is that this will set a precedent that will take into account agreements with other countries that are low-wage countries. I think our response to that would still have to be that each one of these agreements has to be treated on its merits and, as we pointed out earlier, Israel is not a low-wage country.

Mr. **Pease**. Well, as I recall the testimony from the AFL-CIO, they seem to suggest that it is conceivable that other countries would automatically be entitled to comparable most-favored-nation treatment.

Mr. **Moses**. I am not aware of that, Mr. Pease, but it is obviously a question that has to be answered to the satisfaction of your committee and should be.

Mr. **Pease**. If you could, later for the record, or however, enlighten us on that.

Mr. **Moses**. We will get the answer and submit a supplemental statement.

[The information follows:]

THE AMERICAN JEWISH COMMITTEE,
INSTITUTE OF HUMAN RELATIONS,
New York, NY, July 2, 1984.

Hon. SAM GIBBONS,
Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, Washington, DC.

DEAR CONGRESSMAN GIBBONS: I am responding to Mr. Pease's question to me during my appearance before the Subcommittee on June 13, 1984 concerning whether, if the Congress were to pass H.R. 5377 authorizing the negotiation of a free trade agreement with Israel, it would extend to other countries with which we have bilateral agreements containing most favored nation provisions.

The Senate Committee on Finance dealt with this concern during its consideration of S. 2746, the Senate companion to H.R. 5377. S. 2746 was amended to "bar, notwithstanding any other provision of law, the extension of any trade benefit accruing to Israel or Canada from a trade agreement entered into under . . . . to any other country." The Senate Committee report states clearly that the Committee intends that no benefits shall extend to any other country by reason of the extension of a trade benefit to Israel under the authority of S. 2746.

The American Jewish Committee is persuaded that the amendment proposed by the Senate Finance Committee meets Mr. Pease's concern and believes it should be adopted by the House as well.

Sincerely yours,

ALFRED H. MOSES.

Mr. **Pease**. I am told that currently U.S. imports from Israel amount to about $1.2 billion. And U.S. exports to Israel, excluding military items, amount to $1.5 billion. So the United States already enjoys a favorable balance of trade with Israel.

Mr. **Moses**. Yes.

Mr. **Pease**. If you could look down the path 5 years after an agreement of this sort were approved, what would you think that balance might be? In other words, who do you think will gain the most in terms of exports from this agreement?

Mr. MOSES. Well, the eminent sage no longer with us, Samuel Goldwyn used to say all predictions are difficult, particularly those that deal with the future. Bearing that in mind, my response would be that I believe that there are two factors that favor the U.S. position.

First, we are pretty good as an economy. We are the best in the world, and if the rules are fair, we can compete with manufacturers, businessmen, any place in the world, including Israel—we shouldn't come out second best.

Second, Israelis, for understandable reasons, favor the United States. The psychological impetus is there to buy American. If we can put the goods on the shelves in Israel, at a price that is near or equal to products from the rest of the world, we should have an advantage.

I see no reason why the current favorable U.S. balance will tilt the other way. Indeed, if I were to speculate, I would suggest that there might be a widening of the present balance in favor of the United States, but there should be an increase in trade on both sides, and that is what is important. It should benefit both economies.

Mr. PEASE. Thank you. I think the assumption is if we move our tariffs and Israel moves their tariffs, that the goods will flow freely back and forth based only on competitive price and quality and considerations?

Mr. MOSES. That is the assumption, yes.

Mr. PEASE. I wonder if you have looked at the fact that under the GATT, Israel—as a developing country as opposed to the United States as a developed country—can legally, impose certain restrictions, including quotas, as a way of protecting infant industries?

Mr. MOSES. I think that is something that we have an interest in looking at and reaching an understanding with the Israelis. There should be the same rules on both sides, and that is something that I would expect if not taken up in the legislation, is something Mr. Brock, our Trade Representative, will be talking about.

Mr. PEASE. But generally you would be supportive of some kind of assurances that Israel would not take advantage of the provision in the GATT that would allow them to impose quotas?

Mr. MOSES. Yes; I would.

Mr. PEASE. Also, I understand that Israel, because of its balance-of-payments problems due in large measure, as you mentioned earlier, to its large military spending, imposes nontariff barriers, import licensing, a 2 percent surcharge on imports, prior import deposit and that sort of thing. I chuckle because we have a more severe balance of payments problem than the Israelis do. We certainly soon will, so we probably can take advantage of the same provisions.

But, again, in terms of the level playing field concept, would you be supportive of language which would seek assurances that Israel would not use such restrictions providing we did not use such restrictions?

Mr. MOSES. Yes; I would expect Mr. Brock, and I believe he has so indicated, will be taking that issue process of taking up with the

Israelis. Our own current unfavorable balance of payments is a result, as we all know, of a very strong dollar, and maybe some of the work that the chairman is doing in another room today will help that situation by reducing the deficit.

Mr. **PEASE**. Well, we certainly hope so.

Finally, I don't know that this is so much a question, it's just an observation. I would like to join my friend Mr. Schulze from Pennsylvania in emphasizing the importance of this committee and Congress looking at the impact of proposals like this on American jobs.

I used to think and have been told as conventional wisdom that the United States is a very mobile society, that Americans move hither and yon at a moment's notice. I have since become convinced that that is not really the case. We do a lot of moving, but that there is a real reluctance on the part of people to move from Pennsylvania to Kansas when they lose their jobs in Pennsylvania, or from northern Ohio to some place in Massachusetts where there is a high-tech industry that might pick up the jobs.

So while free trade may benefit the Nation in the aggregate, and I think it does through lower consumer prices, the dislocations of specific industries like the ones that we will hear from today can't be overlooked lightly. It is easy for those of us who are employed to say, well, workers can adjust to dislocation. The fact is that if a worker is laid off in the steel indsutry or the auto industry or the mushroom industry or the tomato industry or the rose industry, it is not so easy for that worker to pick up and move halfway across the country to find another job, and there are some real tragedies going on in my district, as I presume there are in other districts—families, workers who have had jobs for 30 years from the same employer——

Mr. **MOSES**. Sure.

Mr. **PEASE** [continuing]. Out of a job, cannot find a job. There are laws against age discrimination in this country, but I think anybody who thinks that age discrimination doesn't occur is really deluding himself.

Mr. Downey and I are both cosponsors of the auto domestic content bill, and I think he joins me as a cosponsor of the steel import quota bill?

He does not.

Mr. **SCHULZE**. He will.

Mr. **PEASE**. He probably will. Out of our concern for the kind of human tragedy that goes on when people lose their jobs. And so I hope that in addition to focusing on the big picture and the obvious gain to the entire economy, we can appropriately look at individual sectors as well.

Thank you very much.

Mr. **DOWNEY**. Mr. Frenzel.

Mr. **FRENZEL**. Thank you, Mr. Chairman.

I am delighted to find you right on two out of three. I want to thank the witness and call to the attention of the subcommittee that he and his group have been of great assistance to this subcommittee in the past, particularly with respect to some of our MFN relationships, and specifically with respect to Romania.

Your help has been appreciated, and it has been often a significant or compelling bit of testimony in the work that we are doing here and the decisions that we make.

Mr. **Moses**. Thank you, Mr. Frenzel.

Mr. **Frenzel**. I think your testimony is good. It indicates that you are alert to some of the problems that the members have raised, but that you consider that they will be taken into account in the negotiations which this bill authorizes, and that the agreement which Ambassador Brock or Lane Kirkland or whoever is STR will negotiate will be reciprocal in the true sense. Is that your understanding, and that is the basis for your testimony?

Mr. **Moses**. Yes; it is. It is my belief regardless of who the trade representative is, whether it be a former Member of the Congress or of the labor movement, that the same principles will govern, yes.

Mr. **Frenzel**. In the Senate, as I understand it, the bill has been passed out of committee in a form that requires a look-back approval from the Congress. I assume you prefer the form of Mr. Downey's bill. Could you comment on the form of the Senate bill?

Mr. **Moses**. I have trouble with the look-back approval. Leaving aside what that means in terms of constitutionality, the fact remains that I think we operate better as a Government if the Congress lays down clear directives and entrusts to the executive branch of Government the responsibility to carry out those directives, having always the ultimate power to change those directives.

But to tell someone to go do a job and then come back and report to me so I can tell you whether you are doing a good job on a look-back basis, particularly in an area such as this, where there is always the invitation to take up somewhat narrow concerns, could turn out to be an unfortunate piece of legislation.

It could be an invitation to respond to interests that may appear to be meritorious at the moment, but in the overall scheme and fabric of a free trade agreement should not be paramount considerations. I strongly prefer, the American Jewish Committee strongly prefers, Mr. Downey's bill to the Senate version.

Mr. **Frenzel**. I don't object to the Senate version. My judgment is that conditions change over the years, the Congress has changed. I suspect that the look-back might bring some trouble with it, particularly if economic conditions change in either country

Mr. **Moses**. Yes.

Mr. **Frenzel**. Of course, Israel's form of government is slightly different than ours. Their government has more flexibility than ours does. Our Constitution, of course, leaves this power with the Congress.

Mr. **Moses**. Yes; it does.

Mr. **Frenzel**. And we have infrequently given our executive this kind of authority. Miss Askey and I were being reminded last night of the Reciprocal Trade Act of 1934 and what a change in policy that was because the executive was given enormous power, and Congress stayed out of his hair, when our other protectionist problems came to blossom. But may I then suggest that if there are conditions such as the one you and I have described about reciprocity, that they ought to be attached to Mr. Downey's bill, rather than be picked up in some sort of a congressional approval?

Mr. **Moses**. Yes; I think it ought to be spelled out. I think the principle of reciprocity is inherent in Mr. Downey's bill. To the extent that that should be made more explicit, certainly.

Mr. **Frenzel**. It would be my hope—and I would like to know how you feel about this—that the conditionality that we put on the negotiating authority be as general as possible, and not become sector or product explicit. Is that your opinion too?

Mr. **Moses**. Absolutely. Absolutely.

Mr. **Frenzel**. I think once we get into the textile exemption and the leather exemption and the footwear exemption and the olive exemption, we are dead, because then everybody wants an exemption.

Mr. **Moses**. Sure, and obviously it would be the case if it's good for the other fellow why shouldn't I have it too. And the pressures on this committee will be simply enormous, and if you end up with anything, it won't be a free trade agreement.

Mr. **Frenzel**. I appreciate your testimony.

Mr. Chairman, I ask unanimous consent that the witness be allowed to furnish the material that he agreed to Mr. Pease to furnish at a later date.

Mr. **Downey**. Thank you. Without objection, it is so ordered. Mr. Thomas, would you like to ask the witness some questions?

Mr. **Thomas**. Just very briefly in terms of some of the comments that were made in a general sense about what needs to be focused on in terms of the bigger picture and that there may be some concerns in specific areas, but we can't let those govern us, that we have to again move on to the bigger picture. We are talking about people, and it just seems to me that if there are groups who have a case to make, I think that it is this subcommittee, committee, and Congress' job to allow them the opportunity——

Mr. **Moses**. Absolutely.

Mr. **Thomas** [continuing]. To make the case, and if they are convincing enough, then I think what we have to do is focus on as small a number of particulars as possible, and to get the point across once again, we are not talking about the thin edge of a wedge. We are talking about the only free trade area agreement that is before us.

But since it is the only, it may in fact be the first, and that if it is the only, and a case can be made sufficient to command a majority of people in narrow areas, then I think it does have some impact, if this is also first, in that the process itself then is shaped by the way in which this free trade area is allowed to blossom, not in terms of specific products, but in terms of the general approach to dealing with free trade areas.

I know that generally agriculture will probably benefit, but I just have a little difficulty operating on the business of the greater good to the greatest number and the devil take the hindmost, especially when some of our folks are told that this free trade arrangement will allow us to sell olives to Israel or to sell processed tomato products to Israel. You don't want to focus on that. You want to focus on the increased agricultural trade, which will be going to someplace else. I can't do that.

I think this system is structured so that the individual is considered, and that out of adding up the individuals, you get the collective good. You don't start with the collective good and then sublimate individuals under the collective good. It is in part just a difference in terms of philosophy, I think.

Mr. Moses. Thank you, Congressman.

Mr. Downey, with the consent of the Chair, there is a statement by Elmer Winter, who is the honorary president of the American Jewish Committee. He is also the chair of the Committee for Economic Growth in Israel, where he spends a great deal of time, and the former president of Manpower in Milwaukee, WI. He has prepared a statement of his observations of the current state of the Israel economy, which I think is relevant to some of the things we have been discussing, and I would ask leave of the Chair to have Mr. Winter's statement attached to my own testimony.

Mr. Downey. Without objection, Mr. Winter's testimony will appear directly after yours.

Mr. Moses. Thank you.

[The prepared statement of Mr. Elmer Winter appears on p. 172.]

Mr. Downey. The committee will hear from the next panel, which will be comprised of Mr. David Zollinger, Mr. Larry Taber, Mr. Donald Henriques, Mr. Foster Furman, Mr. Maclay Burt, Mr. Charles W. Blodgett, Mr. Spina, and Mr. Hammer. The Chair would ask the panelists if they could keep their testimony to 5 minutes.

Mr. Zollinger, you will lead off. Let me restate the ground rules. If you have prepared statements, all of them will be admitted into the record, and if you have supplemental statements they will also be admitted into the record. If you can confine your testimony to highlighting your statements and keep it under 5 minutes, the Chair would appreciate it.

Mr. Zollinger.

STATEMENT OF DAVID L. ZOLLINGER, CHAIRMAN, NATIONAL ASSOCIATION OF GROWERS AND PROCESSORS FOR FAIR TRADE, AND EXECUTIVE VICE PRESIDENT, CALIFORNIA TOMATO GROWERS ASSOCIATION, ACCOMPANIED BY LARRY K. TABER, VICE CHAIRMAN AND SECRETARY, AND PRESIDENT, CALIFORNIA LEAGUE OF FOOD PROCESSORS; DONALD A. HENRIQUES, CONTROLLER, SUN GARDEN PACKING CO.; FOSTER FURMAN, CHAIRMAN OF THE BOARD, FURMAN FOODS, INC.; MACLAY BURT, DIRECTOR OF AGRICULTURAL OPERATIONS, SWIFT/HUNT-WESSON FOODS, INC.; CHARLES W. BLODGETT, DIRECTOR OF CORPORATE RELATIONS, SWIFT/HUNT-WESSON FOODS, INC.; A.E. SPINA, EXECUTIVE VICE PRESIDENT, TRI-VALLEY GROWERS; AND THOMAS A. HAMMER, GOVERNMENT RELATIONS ADVISER

Mr. Zollinger. Mr. Chairman, to start off with, we appreciate the opportunity to appear before this committee. My name is David Zollinger, and I am executive vice president of the California Tomato Growers Association and chairman of the National Association of Growers and Processors for Fair Trade.

I would like to introduce the people who are here with me today, but I would like to point out that the people who are here represent a broad cross-section of the U.S. tomato industry.

I represent growers. We represent a number of processors who are very large as well as processors who are in the smaller category. We also represent processors who are cooperative processors, and those that are proprietary. We came together because of the significance of this issue.

We have with us today Mr. Larry Taber, on my far left, who is vice chairman and secretary of our association, and he is president of the California League of Food Processors. Next to him is Mr. Al Spina, on my left. He is a director and he is executive vice president of Tri-Valley Growers. Next to him is Mr. Maclay Burt, director of operations for Swift/Hunt-Wesson Foods. And also on my left, my immediate left, is Mr. Charles Blodgett, director of corporate relations for Swift/Hunt-Wesson Foods.

On my far right is Mr. Tom Hammer, governmental relations adviser. Next to him on my far right is Mr. Don Henriques. He is treasurer of our new association; he is also controller for Sun Garden Packing Co., and on my immediate right is Mr. Foster Furman. He is director and he is chairman of the board of Furman Foods of Pennsylvania.

Mr. Chairman, the U.S. tomato-growing and processing industry is gravely concerned about the growing harm caused by foreign imports. We have expressed these concerns in hearings before the International Trade Commission, the Trade Policy Staff Committee, and the Trade Subcommittee of the Senate Finance Committee Two weeks ago the International Trade Commission completed its report on the potential effects of a United States-Israel free trade area on the U.S. economy. That report is yet to be made public, or even made available to Congress. Ambassador Brock has told us in a meeting last week that the tomato industry made its case before the Commission. Yet it is apparent now that the Commission's conclusions regarding the import sensitivity of our industry will not be made known to the lawmakers who must approve the authority to negotiate the free trade area. Given these positive signals from Ambassador Brock, we believe that the confidential status of the report should not prevent Congress from supporting a tomato product exclusion.

Another disturbing fact was raised by Ambassador Brock in our meeting with him. He indicated the possiblity of negotiating additional free trade areas with other countries. Ambassador Brock announced that other free trade areas would be negotiated on an ongoing basis. For the U.S. tomato-growing and processing industry, this prospect could mean further damaging competition from imports from other major tomato product exporting countries such as Mexico and Taiwan. These are probably prime candidates for additional free trade area partners.

Today Israel lands tomato paste on our east coast at an equivalent grower cost/price of $32 per ton. This compares to California growers' out-of-pocket costs of $50 per ton, a 40-percent cost advantage. If Israel or any other country is successfully competing today with the U.S. tomato industry, why should we consider further concessions when the effect will create havoc for U.S. growers and processors?

Mr. Chairman, if I may, I would like now to refer to the charts that we submitted with my statement. I would also like to request that we be able to include in the record the statement by Dr. Leon Garoyan, who completed a study of Israel in January of this year, and is an economist emeritus with the University of California.

Mr. DOWNEY. Without objection, Mr. Garoyan's study will be placed after your statement.

Mr. ZOLLINGER. Thank you, Mr. Chairman.

I would also like to request that the statements and testimony that was offered at the International Trade Commission hearings, that they also be made a part of the record of this hearing.

Mr. DOWNEY. I am sorry, would you make the request again?

Mr. ZOLLINGER. We presented——

Mr. DOWNEY. Statements?

Mr. ZOLLINGER. Statements, testimony to the International Trade Commission in reference to this question.

Mr. DOWNEY. Without objection, they will also be entered in the record.

Mr. ZOLLINGER. Thank you.

Then I would like to move, if I may, to the charts in back of my statement.

I would like to move to appendix B, if you would. In appendix B is depicted the recent figures as to the total imports into the United States of canned tomatoes, tomato paste, and tomato sauce. It also indicates the U.S. imports from Israel, in each one of those items, and it also indicates the Israeli percentage of each one of those items. I would like to draw your attention, if I may, to canned tomatoes.

If you will look at the year 1980, and follow those figures across, you will notice that in 1980 the total imports into the United States was approximately 40 million pounds. You will note in 1983 that the total imports were 187 million pounds approximately. That is a 468-percent increase in imports in that time period. We are already being inundated in effect with imports, offshore product.

U.S. imports from Israel in that same category of canned tomatoes, you notice there were approximately 4 million in 1980, and approximately 49 million in 1983. If you move over to the right-hand column, Israel's percentage of the U.S. total, in 1980 Israel had 10.4 percent of all canned tomatoes imported into the United States. In 1983 that percentage increased to 26.1 percent.

Under tomato paste, again going back to 1980, approximately 25 million pounds total U.S. imports. In 1983, approximately 161 million pounds, a 1,431-percent increase in that period of time. That is what we mean when we say we have a problem already.

U.S. imports from Israel during that same time period in 1980, there was 314,000 pounds. In 1983 we have almost 17 million. Israel as a percentage of total tomato paste, 1980, 1.2 percent; 1983, 10.4 percent.

Let's go to tomato sauce. Tomato sauce in 1980, total imports into the United States, approximately 1,600,000; 1983, 24 million almost. That is an increase percentagewise of 631 percent.

Tomato sauce, Israel's portion, 1980, 1,300,000 pounds; 1983, 16 million. Israel as a percentage of U.S. total of tomato sauce, 1980, 78.7; and in 1983, 69.7.

Now I would like to make a point in addition to that chart, and that is that these figures for 1983 are based on Israel's production of 300,000 metric tons per year. In the report that I talked about, Dr. Leon Garoyan's report, he indicates that under the right conditions, particularly with the incentive offered by the free trade area, Israel will be able to move from 300,000 metric tons per year to 500,000 tons in a very short period of time, and up to 750,000 metric tons over a little longer period. So when we are looking at this kind of escalation in the amount of pounds already being shipped in, we must also consider the projected amount that we will receive under the FTA.

The next chart I would like to turn to, Mr. Chairman, is appendix D. We have depicted here—and the source, as you will note, is the U.S. ITC Publication 841—and we have shown here processed tomatoes, U.S. production exports, imports, and apparent consumption, and the quantity is in thousands of pounds. On the left-hand side we show the year, then we show the total U.S. production, the amount of tomatoes that the United States has been able to export, the amount of imports and the apparent total consumption, and imports percentage of that total consumption. Again going to the 1980 year, total U.S. production was 947,000.

By the way, this is processed tomatoes, just talking about processed tomatoes.

Exports were only 35,000, imports 27,000, apparent consumption 939,000. Imports as a percentage of consumption, only 3 percent, just 3 percent.

In 1982, U.S. production, 722,000; exports, 30,000; imports, 219,000; apparent consumption, 912,000. Actually, consumption was down a little bit from the 1980 period, but imports as a percentage of that reduced consumption were 24 percent, and this is what we mean when we say our industry is not all that well off. In fact, we have already a migraine headache with imports.

Then let's go down to the next chart, tomatoes processed; 1980 again, 2,221,000; 1982, 2,236,000. That is U.S. production. Exports, 70,000 and 50,000 respectively. Imports, 1980, 66,000, almost 67,000; 1982, 387,000. Percentage apparent consumption, again going back to consumption, consumption is not too much change. We had a slight increase in consumption between 1980 and 1982, but the imports percentage of that total amount of consumption moved again from 3 to 15 percent. That is our problem, part of it.

Mr. Chairman, it has been mentioned several times this morning that Israel is right now importing to the United States approximately 85 percent of its total production. What hasn't been stated is that in 1979 that was only 15 percent. There has been a dramatic change in that short period of time.

I would like to point out that there has been a severe impact on the U.S. industry because of imports, primariy because of imports, and the overall effect of imports has been that the United States production of tomatoes as far as processors and growers are concerned has been stuck around the 7-million-ton level.

Mr. **Downey**. Mr. Zollinger, can I ask you to summarize it? If everyone goes on for 15 minutes, we will not be here.

Mr. **Zollinger**. I will make the overall statement. My compadres will be able to respond to your questions. We don't plan to go on to a statement for each one.

Mr. **Downey**. Thank you.

Mr. **Zollinger**. I should say my associates from across the Nation.

Mr. **Downey**. Compadres is quite acceptable.

Mr. **Zollinger**. The domestic production, Mr. Chairman, has been stuck at 7 million tons. We haven't been able to increase that amount. There has been an increase in business over 7 million tons, but U.S. producers and processors have not enjoyed any of that new business. They literally have been static at those levels.

Growers prices as far as the effect of imports, in 1983 the price that was negotiated with processors in California was $53.50. In 1982 that price was $55.60, a distinct change. I can tell you, Mr. Chairman, that we are negotiating now for the 1984 crop price of tomatoes in California, and I am the chief negotiator with processors in those negotiations, and we are going to get about a 50-cent increase, and we have been negotiating since November of last year, so it is not a cup of tea.

The average grower—by the way, when we talk about price being $53.50 the average grower in Fresno County, which is the largest producing county in the United States of tomatoes, approximately 1.7 million tons of tomatoes produced in Fresno County, that county average is 26 tons to the acre, but if we took a 30-ton-per-acre grower and counted all of his costs, his actual costs are $56.82, at a price of $53.50, it represents a loss of over $3 per ton to the grower.

The other thing that has happened as far as the effect of imports, Mr. Chairman, is the prices of finished product have been severely impacted. The average paste price in 1982, California price, was 49.7 cents per pound. Imports, average price in 1982 were 44.5 cents per pound. The average for tomato products, talking about canned tomatoes, those prices in 1982, California average prices were 40 cents per pound. Imported product was 26.5 cents per pound.

It is extremely difficult for the U.S. industry, even though we are extremely efficient, even though we are doing everything we can in terms of technological advancement, it is very difficult to compete with those kinds of differences.

I would like to address myself just a moment—I keep talking about the problems we have in the industry, and earlier this morning there were a number of the witnesses that indicated indirectly that California growers are highly successful, we have an important industry, and that we are doing quite well. I would like to indicate to you, Mr. Chairman, that that is not true. That is simply incorrect.

It is incorrect from the standpoint of growers in Fresno County—again I go back to Fresno County; that is the leading county in the world. Fresno County produces 24 percent of the U.S. total supply of tomatoes. The growers there are highly innovative. They have large operations. They have as much as 2,000 acres of tomatoes that they may grow. They have drip irrigation systems, et cetera, but in Fresno County, the Fresno Federal Land Bank Report for

1983 indicated that delinquent farm loans doubled in 1983 in Fresno County. In addition to that, we had the highest number of bankruptcies that that county has seen in 50 years. Things are not that rosy.

In terms of processors, just talking about processors, last year the largest cooperative canning processor in the United States went bankrupt. That was California Canners & Growers. It processed at that time roughly 600,000 tons of tomatoes the cooperative members produced. That facility was taken over by Tri-Valley Growers, a portion of it, but there has been a tremendous loss of that potential. Again, processors are facing difficult times now. They are going out of business.

The aspect of what the FTA might do in terms of the future is something I would like to talk a little bit about. Dr. Kirby Moulton, who worked with Dr. Leon Garoyan, and who is an economist from the University of California at Berkeley, using the levels of 500,000 metric tons, which I discussed earlier, is the possibility of Israel to import into the United States in a very short period of time, indicates using his mathematics as an economist, the processor revenues lost, if this takes place, will amount to $50 to $65 million in California; private sector sales, $51 to $184 million; personal income, $61 to $77 million; private sector jobs, 2,000 jobs.

Now I would also like to point out that the demise of the processing plants in California that has already taken place, we have had an equivalent amount of jobs already lost in California in the industry. I would also like to point out, Mr. Chairman, that the U.S. tomato processing industry is not subject to subsidies. We do not receive any subsidies. We don't have any price supports. About the only thing we get from Government is regulation, in that way Israel has advantages.

Mr. DOWNEY. We collect taxes, too.

Mr. ZOLLINGER. Very good, Mr. Chairman.

Israel has some definite advantages in terms of its industry. Currently, in Israel there are two processing plants for tomatoes under construction. One of those new plants—and I believe those are paste plants—are to be on line—one of them to be on line this year.

There are a number of plants in Israel that have the ability to concentrate citrus juice and tomato concentrate, and it has been this tactic, strategy, that has been used recently to allow the Israel industry to dramatically increase the amount of product they have been able to put out. In other words, an existing citrus processing plant can be utilized to produce tomato paste or concentrate, and of course in the process there has been some citrus orchards removed.

Also, by the way, tomatoes at this time, we understand, have been taking the place of those citrus orchards that have been removed, so that is one advantage.

Another major advantage is, Israel does have lower labor rates. That has been stated and indicated in Dr. Leon Garoyan's report. I will leave that for you. And Israel has paid direct government subsidies.

The depressed state of the U.S. tomato industry is not the result of any lack of ability on the part of the tomato grower or processor. Growers and processors have invested heavily in new machinery and innovative farming and processing technology. Given the opportunity, our members have the know-how to double present production. That opportunity will never come, however, if the growth in imports, the cause of the industry's current decline, is encouraged by the creation of a free trade area with Israel.

To prevent this rise in imports, maximum efforts must be made to maintain the current U.S. tariff on tomatoes and tomato products. Therefore, I respectfully request that this committee not approve the negotiating authority for a free trade area without ensuring the exclusion of tomatoes and tomato products from such an arrangement. Such an exclusion would not be unprecedented.

The legislation creating both the generalized system of preferences and the Caribbean Basin Initiative provided for the exclusion of import-sensitive products, nor would such an exclusion risk making the free trade area illegal under the General Agreement on Tariffs and Trade. Under the GATT, just substantially all products must be included in a free trade area.

In summary, Mr. Chairman, I would say that many have suggested staging the elimination of tariffs over several years as an alternative to the immediate tariff removal upon establishment of a free trade area. This compromise position is not acceptable to our industry. It stretches out the detrimental effects of duty reduction over a number of years with the same result over a longer period of time.

Therefore, given the already depressed state of our import-sensitive industry, we urge this committee to support the exclusion of tomatoes and tomato products from the administration's proposed United States-Israeli free trade area.

Thank you, Mr. Chairman. The entire group is ready to answer any questions you may have.

[The prepared statement and additional material follow:]

STATEMENT OF DAVID L. ZOLLINGER, CHAIRMAN, NATIONAL ASSOCIATION OF GROWERS AND PROCESSORS FOR FAIR TRADE

Good morning Mr. Chairman and Members of the Subcommittee. I am David L. Zollinger, Executive Vice President of the California Tomato Growers Association, Inc. and Chairman of the National Association of Growers and Processors for Fair Trade. I appreciate this opportunity to discuss with you how the Administration's proposal to create a free trade area with Israel will adversely effect the depressed U.S. tomato growing and processing industry.

The National Association of Growers and Processors for Fair Trade is a unique organization. For the first time, tomato growers and processors have joined together in an organization national in scope to address a legislative issue vital to their continued existence. The Association has members from numerous states, from New Jersey to California, from Washington to Florida. They represent every major tomato producing state in the country. The views I share here with you today reflect the common concerns of this diverse membership.

Mr. Chairman, the U.S. tomato growing and processing industry is gravely concerned about the growing harm being caused by foreign imports. We have expressed these concerns in hearings before the International Trade Commission, the Trade Policy Staff Committee, and the Trade Subcommittee of the Senate Finance Committee. Two weeks ago the International Trade Commission completed its report on the potential effects of a U.S.-Israeli free trade area on the U.S. economy. That report is yet to be made public, or even made available to Congress. Ambassador Brock told us in a meeting last week that the tomato industry "made its case" before the Commission, yet it is apparent now that the Commission's conclusions regarding the import sensitivity of our industry will not be made known to the lawmakers who must approve the authority to negotiate the free trade area. Given these positive signals from Ambassador Brock, we believe that the confidential status of the report should not prevent Congress from supporting a tomato product exclusion.

Another disturbing fact was raised by Ambassador Brock in our meeting with him. He indicated the possibility of negotiating additional free trade areas with other countries. Ambassador Brock announced that other free trade areas would be negotiated on an "on-going" basis. For the U.S. tomato growing and processing industry, this prospect could mean further damaging competition from imports from other major tomato product exporting countries, such as Mexico and Taiwan. These countries are arguably prime candidates for additional free trade area partners. Today, Israel lands tomato paste on our East Coast at an equivalent grower cost/price of $32 per ton. This compares to California growers' out-of-pocket costs of $50 per ton, a 40% cost advantage. If Israel or any other country is successfully competing today with the U.S. tomato industry, why should we consider further concessions when the effect will create havoc for U.S. growers and processors?

The U.S. tomato industry is a technologically advanced and economically efficient industry that produces one-half of the world's processed tomato products. Appendix A sets forth tomato product production statistics by state. Foreign importers of tomato products are nonetheless increasing their share of the U.S. market at our expense. U.S. growers and processors should be enjoying higher production levels, healthy market prices, and an expansion of market share. Instead, our members are suffering from rising inventories and severely depressed prices. Current U.S. tariffs on tomatoes and tomato products must be preserved if the further decline of this vital U.S. industry is to be prevented.

Imports of tomatoes and tomato products have risen dramatically in recent years. This rise is largely attributable to unfair trade practices, favorable exchange rates, and a steady increase in U.S. consumption that have encouraged increased foreign production.

The volume of imported tomato products was seven times greater in 1983 than in 1980. The ratio of imports to domestic production jumped from 1.7% in 1980 to 10% in 1983. Imports of processed tomatoes increased 320% when comparing the 1978-80 three-year average to that of the 1981-83 three-year average.

This recent surge in imports has affected every type of processed tomato product. Imports of tomato paste rose from 25,465,289 pounds in 1980 to 160,742,004 pounds in 1983, a 631% change. Imports of canned tomatoes increased from 39,880,425 pounds in 1980 to 186,708,619 in 1983, a 468% jump. Imports of tomato sauce soared from 1,651,098 pounds in 1980 to 23,626,172 pounds in 1983, a devastating 1,431% increase. The charts in Appendix B detail these increases.

Israeli imports represent a significant portion of overall imports. Israel currently exports 85% of its processed tomatoes to the United States. It is the fastest growing tomato producer and processor in the world. An on-site study by Dr. Leon Garoyan of the University of California concluded that if a free trade area with Israel were established, Israel would rapidly expand production to the point of displacing one of every six tons of tomatoes grown in California, our major tomato-growing state. Over the last three years alone, the ratio of Israeli imports to U.S. consumption has quadrupled.

Israeli imports in 1983 represented 69.7% of total U.S. imports of tomato sauce, 10.4% of total U.S. imports of tomato paste, and 25.1% of total U.S. imports of canned tomatoes. Although tomato sauce imports decreased slightly, the canned tomato and tomato paste imports increased by 15.7% and 9.2% respectively since 1980. The charts in Appendix B trace these increases, which took place under the existing duties. The graph in Appendix C projects Israeli imports to the United States through 1989 at the current duty. Even at current tariff rates, Israeli tomato products will present U.S. products with stiff competition.

From 1979 to 1983, the Israeli production of tomatoes for processing increased from 166,000 metric tons to 293,000 metric tons, an increase of 76.5%. The area harvested increased from 9,725 acres in 1980 to 16,250 acres in 1983, an increase of 67%. Dr. Garoyan has projected that the creation of a U.S.-Israeli Free Trade Area would allow the Israeli industry to expand its production of tomatoes to as much as 500,000 metric tons in one year, and it would be feasible for 750,000 metric tons to be produced in just a few years.

The Israeli tomato industry enjoys several advantages over its U.S. counterpart. The processing sector has facility utilization advantages over California processors by virtue of the fact that Israeli processors work citrus during the months prior to the tomato harvest. Labor rates in Israeli canneries are much lower than in the United States. Government subsidies amounting to $11.00 per metric ton in 1981 and $3.78 per metric ton in 1982 have given a major boost to the Israeli industry.

Rising tomato product import levels from all sources have caused serious economic hardships to U.S. tomato growers and processors. Despite increased national demand for tomato products, demand from U.S. producers has remained static at just above the seven million ton level. In contrast, the ratio of imports to consumption for canned tomatoes rose from 3.12% in 1980 to 10.05% 1982. Consumption of imported tomato sauce, puree, and paste equaled 24% of U.S. consumption in 1982, up from 4% in the 1978-80 period. The charts in Appendix D document these increases.

The adverse effect of imports on the U.S. tomato industry is best gauged by their impact on market prices for the domestic industry. It is instructive to consider the market conditions in California, where much of the U.S. production of canned tomatoes occurs. The price per ton paid to California growers of processing tomatoes fell $2.10 from 1982 to 1983, from $55.60 per ton to $53.50 per ton. Meanwhile, grower cost in Fresno County stands at $56.82 per ton. The total value of the California canning tomato crop dropped from 377 million dollars in 1982 to 322.5 million dollars in 1983.

Even after the application of current duties, import prices per pound are generally lower than California prices. Import prices for tomato paste in 1982, derived from the annual average value of imports as reported by the U.S. government, stood at 44.5¢ per pound compared to 49.7¢ per pound for the California product. Average prices for other imported canned tomato products stood at 26.4¢ per pound in 1982 compared to 40¢ per pound for the California product.

The impact on prices is, of course, not limited to California. For instance, Furman Canning Company, located in Pennsylvania, the nation's fifth largest tomato-producing state, reports that Israel delivers #10 crushed tomatoes to its customers at $12.60 delivered. Furman's actual cost on the same product delivered to New York is $12.68. If the present duty on this item were removed, the delivered price of the Israeli product would be lowered to $11.19. This is an unacceptable situation for our members.

These figures also highlight the added burden of Eastern and Midwestern tomato growers and processors: their major markets are in the East, precisely the area of the United States most vulnerable to competition from imports, which arrive primarily from Mediterranean countries.

Growers and processors in Indiana and other Midwestern states have been hurt by the fact that Israel now exports a higher percentage of #6/10 tomatoes for the food service industry. The Midwest tomato industry is composed predominantly of many small, independent companies that specialize in producing for this market. Therefore, additional imports from Israel would have a disproportionately adverse effect upon the Midwest industry.

Other indicators graphically demonstrate the declining state of the U.S. tomato industry. Again, the situation in California is representative. In Fresno County, the number one agricultural producer in the United States and largest tomato producing county in California, growing 24% of the total U.S. supply, farm loans have dropped from $84.4 million in 1981 to just $22 million in 1983. The Federal Land Bank Association of Fresno reports that the number of delinquent farm loans in Fresno County doubled in 1983. The County has also recently experienced the highest number of bankruptcies in 50 years.

With the industry barely holding its own with the present duties in place, the elimination of these duties on Israeli imports promises an even more dismal future. Dr. Kirby Moulton of the University of California projects that further expansion of the Israeli tomato industry will result in 50-65 million dollars in losses in processor revenues, 61-77 million dollars in losses in personal income, $51-184 million dollars of losses in private sector sales, and the loss of as many of 2,000 private sector jobs in California alone.

Despite the serious state of the U.S. industry in the face of rising imports, domestic tomato growers and processors have been given no federal or state subsidies, price supports, or government payments of any kind. In fact, to the extent that there has been government involvement, it has come in the form of regulatory obstacles and environmental controls, which foreign producers do not face.

The depressed state of the U.S. tomato industry is not the result of any lack of ability on the part of the tomato grower or processor. Growers and processors have invested heavily in new machinery and innovative farming and processing technology. Given the opportunity, our members have the know-how to double present production. That opportunity will never come, however, if the growth in imports, the cause of the industry's current decline, is encouraged by the creation of a free trade area with Israel. To prevent this rise in imports, maximum efforts must be made to maintain the current U.S. tariff on tomatoes and tomato products. Therefore, I respectively ask that this Committee not approve the negotiating authority for a free trade area without ensuring the exclusion of tomatoes and tomato products from such an arrangement.

Such an exclusion would not be unprecedented. The legislation creating both the Generalized System of Preferences and the Caribbean Basin Initiative provided for the exclusion of import-sensitive products. Nor would such an exclusion risk making the free trade area illegal under the General Agreement on Tariffs and Trade (GATT). Under the GATT, only "substantially all" products must be included in a free trade area.

Because the U.S. tomato growing and processing industry is already highly import-sensitive, it can ill-afford any further influx of foreign tomato products. If the tariff is in any way reduced or removed, it would mean the collapse of the industry. Ambassador Brock has suggested staging the elimination of tariffs over several years as an alternative to the immediate tariff removal upon the establishment of the Free Trade Area. This "compromise position" is not an acceptable option. It simply stretches out the detrimental effects of duty reduction over a number of years, with the same result over a longer period of time. Therefore, given the already depressed state of this import-sensitive industry, we urge you to support the exclusion of tomatoes and tomato products from the Administration's proposed U.S.-Israeli Free Trade Area.

APPENDIX A

TOMATOES FOR PROCESSING:
Area, Yield, and Production

STATE	ACRES PLANTED 1982	ACRES PLANTED 1983	ACRES HARVESTED 1982	ACRES HARVESTED 1983	YIELD PER ACRE 1982	YIELD PER ACRE 1983	PRODUCTION 1982	PRODUCTION 1983
	----Acres----					-----Tons-----		
California	253,000	239,500	232,000	233,500	26.50	25.58	6,148,000	5,972,930
Colorado	1,100	1,100	860	1,100	16.08	15.95	13,830	17,550
Delaware	1,300	840	1,200	840	14.86	13.36	17,830	11,220
Indiana	7,000	7,800	6,700	7,600	20.83	18.37	139,560	139,610
Maryland	4,100	2,600	4,100	2,600	15.76	13.57	64,620	35,280
Michigan	9,800	9,300	9,700	9,200	21.10	19.90	204,670	183,080
New Jersey	5,600	4,400	5,600	4,400	19.07	15.70	106,790	69,080
Ohio	18,900	19,300	18,1800	19,200	19.58	21.30	368,100	408,960
Pennsylvania	5,100	5,000	5,000	5,000	16.85	16.43	84,250	82,150
Texas	2,800		2,700		9.10		24,570	
Virginia	1,900	1,700	1,800	1,700	15.36	7.36	27,650	12,510
Other States1/	7,040	7,510	6,840	7,080	14.49	14.10	99,120	99,830
United States	317,640	299,050	295,300	292,220	24.72	24.06	7,298,990	7,032,200

1/ 1982 - Florida, Illinois, Iowa, New Mexico, New York, North Carolina Utah, and West Virgnia.

1983 - Illinois, Iowa, New Mexico, New York, North Carolina, Texas, Utah, and West Virginia.

APPENDIX B

CANNED TOMATOES

	Total U.S. Imports (pounds)	U.S. Imports From Israel (pounds)	Israel as Percent of the U.S. Total (pounds)
1978	74,164,976	7,451,389	10.0
1979	45,566,276	5,497,885	12.1
1980	39,880,425	4,148,889	10.4
1981	97,227,954	14,355,621	14.8
1982	167,017,976	24,713,804	14.8
1983	186,708,619	48,772,442	26.1

TOMATO PASTE

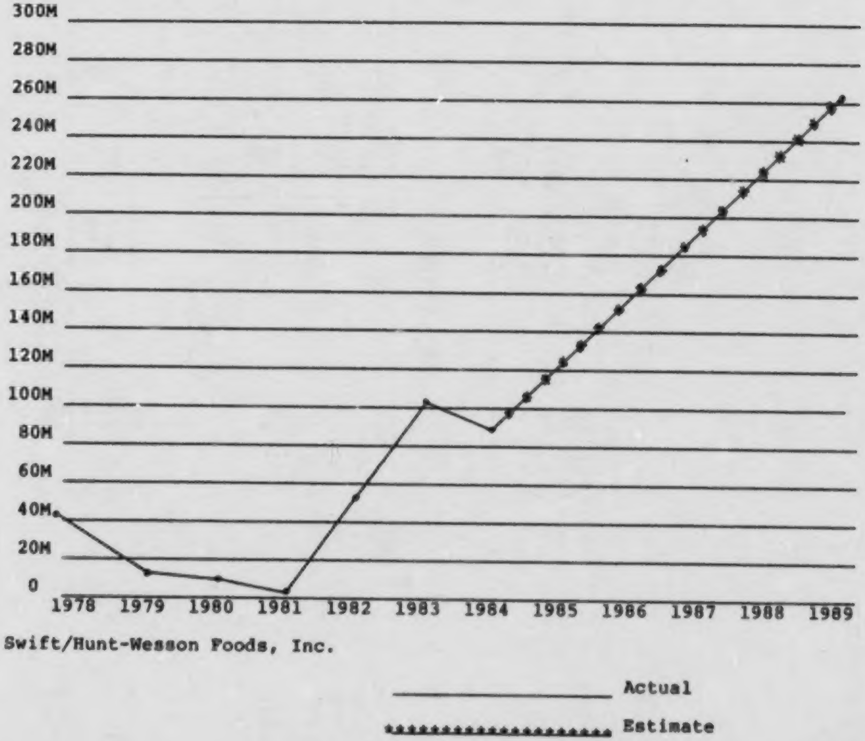
1978	50,990,645	239,030	.47
1979	42,054,052	298,998	.71
1980	25,465,289	314,834	1.2
1981	65,202,175	10,954,188	16.8
1982	198,029,353	25,048,974	12.6
1983	160,742,004	16,698,729	10.4

TOMATO SAUCE

1978	7,116,183	6,345,237	89.2
1979	2,793,422	2,474,353	88.6
1980	1,651,098	1,299,742	78.7
1981	9,116,339	8,008,791	87.9
1982	21,824,299	18,954,172	86.9
1983	23,626,127	16,476,625	69.7

APPENDIX C

IMPORTED TOMATO VOLUME FROM ISRAEL
(in millions of pounds/market year ending)



Swift/Hunt-Wesson Foods, Inc.

Appendix D

TOMATOES, PROCESSED: 1/ U.S. PRODUCTION, EXPORTS, IMPORTS AND APPARENT CONSUMPTION

(QUANTITY IN THOUSANDS OF POUNDS)

YEAR	PRODUCTION 2/	EXPORTS	IMPORTS	APPARENT CONSUMPTION	IMPORTS % CONSUMPTION
1978	1,011,000	36,607	58,107	1,032,500	6
1979	1,247,400	48,607	44,847	1,243,640	4
1980	947,520	35,498	27,116	939,138	3
1981	682,440	35,655	74,319	721,104	10
1982	722,760	30,173	219,854	912,441	24

1/ Includes only Puree, Paste and Sauce.
2/ Partly estimated by the Staff of the U.S. International Trade Commission.
(Source: USITC Publication 841, excerpted from Table 9)

TOMATOES, PROCESSED: 1/ U.S. PRODUCTION, EXPORTS, IMPORTS AND APPARENT CONSUMPTION

(QUANTITY IN THOUSANDS OF POUNDS)

1978	2,191,784	64,824	132,272	2,260,232	6
1979	2,516,904	90,291	90,414	2,517,027	4
1980	2,221,824	70,449	66,997	2,218,372	3
1981	1,928,928	67,848	171,546	2,032,626	8
1982	2,236,896	50,150	386,872	2,573,618	15

1/ Includes Puree, Paste, Sauce and Other Canned Tomatoes.
2/ Partly Estimated By the Staff of the U.S. International Trade Commission.
(Source: USITC Publication 841, Excerpted from Table 8)

January 30, 1984

THE PROCESSING TOMATO INDUSTRY OF ISRAEL

by Leon Garoyan

Economist Emeritus, Cooperative Extension Service
University of California, Davis

It is a deceiving fact that Israel's tomato production for processing is small. For hidden by its small total production of 293,000 metric tons in 1983 are these considerations: 85 percent of its processed tomato products are marketed in the U. S.; yields per acre are twice that of other Mediterranean producing countries; the industry has the potential within a short period of displacing one out of every six tons of tomatoes grown in California for processing; and the Israeli government in 1984 is seeking special trade privileges in the U. S. and E. E. C.

There are few secrets in the production practices for growing tomatoes, or in the design and operation of tomato processing equipment and facilities. Worldwide, tomato seeds developed in California become the backbone of the processing industry in nearly all countries.

Harvesting equipment developed in California is to be found too, and its use is restricted mainly by field size. Some notable prototypes of tomato "combines" designed for small scale farming operations now exist, based on the technology from California equipment. Concentrators and other equipment from Parma, Italy, are in use everywhere, as are dicing equipment from Urschell Laboratories.

What distinguishes one country from another are the details, not the generic similarities. How carefully farmers in Israel preserve water use through computer-controlled metering drip systems is contrasted with less than optimum irrigation water use in Spain and Portugal, which face similar critical conditions of water supply as does Israel, if not similar water quality concerns. California farmers use sprinkler and furrow irrigation, with all their limitations, even though the technology of computerized metered drip irrigation is available. The shift to metered drip irrigation in Israel is reputed to have increased yields per acre by over 50 percent.

Given the same equipment and processing technology, attention to details of quality of tomatoes received from farmers, and quality control in the processing plant, strongly influence mold counts in the final product. The Israelis strive to duplicate California product qualities with strict laboratory surveillance, since the U. S. is their main market.

These two factors illustrate Israeli efforts to become and remain competitive in world markets and which seem to distinguish them from other Mediterranean producers.

Production Trends

In the period of five years, from 1979 to 1983, the production of tomatoes for processing increased from 166,000 metric tons to 293,000 metric tons, an increase of 140 percent. Meanwhile, the area harvested increased from 3,890 hectares (9,725 acres) in 1980 to 6,500 hectares (16,250 acres) in 1983, an increase of 67 percent.

Yield estimates are inconsistent, even from the same source. Calculating yields from area and production statistics in Table 1, we get an average (1980-83) of 44.9 metric tons per hectare (or 19.7 U. S. tons per acre), with a range of 42.0 to 49.7 metric tons per hectare (18.5 to 21.9 U. S. tons per acre). However, the same individual reporting the area and production statistics lists higher yields/hectares in his December 1983 tomato and products report. In that report, he gives yields of 57.2 metric tons per hectare (25.2 U. S. tons per acre) for 1982 production year and an estimate of 58 metric tons per hectare (25.5 U. S. tons per acre) for the 1983 crop. As is reported in a later section, the Vegetable Growers Association estimates that yields of 75 metric tons per hectare (33 U. S. tons per acre) are required for growers to break even.

Israel's 1982 production of 240,000 metric tons was 4.3 percent of the total production of 5,613,000 metric tons from the Mediterranean region, and 1.8 percent of world supply. It is, however, the fastest growing production area, about doubling its production between 1977 and 1982. 1/

Of its total production, 85 percent of the tomato products are exported to the U. S.

1/ Structure of Global Processing Tomato Production and Trade, working paper by Leon Garoyan and Kirby Moulton, University of California. Table 1, p. 11.

Table 1. Israel Production of Tomatoes for Processing: Area, Production, and Yields

Year	Area Harvested (Ha.)	Total Production (000 m. t.)	Calculated Yield per Ha. (m. t.)
1977	NA	121	NA
1978	NA	161	NA
1979	NA	122	NA
1980	3,890	166	42.7
1981	3,640	181	49.7
1982	5,710	240	42.0
1983	6,500	293	45.1
1984[a]	7,150	330	46.2

[a] forecast

Source: U. S. Attache Reports, Israel; Foreign Agricultural Service

The Farm Production Sector

There are an estimated 3,000 producers of tomatoes for processing. These range in size from very small individual farmers averaging two to three acres, with some up to 10 to 15 acres and for kibbutzs, an average of 70 to 75 acres up to 125 acres for the largest. About 65% of the production is by individual farmers, with the balance produced by kibbutzs. Virtually all agriculture is organized either as Kibbutzs or as individual farmers in moshavs. Kibbutzs are essentially collectives patterned after eastern European enterprises and were largely settled by immigrants from the eastern European countries. They were located at what were frontier locations when the country was first settled and served as food production enterprises with defense capabilities. They have now diversified into virtually large scale industrial enterprises that often masks their agricultural origins. Some own large food processing companies either independently or in conjunction with other kibbutzs and moshavs; some operate high tech manufacturing enterprices, motels, etc.

Moshavs are cooperatives as known in the U. S. whose purpose is to supply production inputs, machinery and to process and/or market the output of individual farmers who, unlike kibbutz members, either own their own farm land, lease land from the government for as long as 99 years, or operate land rented from others. For security reasons, most villages are either a part of a kibbutz, or exist as a "community" of individual farmers whose houses are within observation by their neighbors.

Kibbutzs have the capability of blocking their tomato production into one field, which maybe larger than that of individual farmers, and therefore enjoy the flexibility of larger machinery. However, some individual farmers will plant in adjacent properties to other growers, producing what appears to be one large field, separated only by a stake marking the boundries.

Production Practices

The main variety grown for processing is L82, a selection from UC 82; to a lesser extent L134 is also grown. Direct seeding accounts for 85 percent of the plantings; the 15 percent mechanical transplants occur mainly to hasten the early harvest in June. Planting plans are based on the requirements of 125-130 days from planting for the early season, and from 105-110 days for mid-season and late.

Fields are prepared with a machine that in one operation pulverizes crop residues such as cotton plants, tills the soil, and prepares raised beds that are 120 cm. wide (47.2"), in two rows approximately 24" apart. (Tractor tires are 76" wide, center to center). As previously stated, about 80 percent of the acreage is now produced under drip irrigation, which is credited for the large increase in yeilds.

No chemicals (growth regulators) are used to affect the maturation of the crop. ETHEROL is not used because temperatures in mid-July through August are high, and subject to temperature variations which could cause damage to fruit. Its use is considered reliable in the mid-September through October period in the Golan Heights Region when temperatures are lower than in the coastal area.

Harvest

The harvest is only partly mechanized for the country. Approximately 40 percent of the crop is machine harvested, and the balance harvested by hand on a once-through basis, where the plants are cut and the tomatoes shaken by hand. A maturity level of 90 to 95 percent is achieved before either hand or mechanical harvest. The leading extension service authority questions the desirability of 95 percent maturity; instead, recommending 90 percent maturity. Cutting off of water supplies to reach the 95 percent maturity level tends to cause plant stress at the expense of fruit quality. As a result, fruit that would normally be of quality for use as whole peeled often must go for juice or paste due to quality deterioration.

Johnson,Blackwelder, and FMC harvesters are used in Israel, but their performance does not meet the needs of growers as well as a machine designed in Israel. For example, the Johnson harvestor is used with 20 sorters on the first and secondary screening due to problems with clods and rocks. In addition, the U.S. machines are large and cumbersome for the smaller fields in Israel.

A smaller trailed harvester designed in Israel has a different separation system, that pulls tight fruit, and separates clods by flexibility and elasticity. While the U.S. models have a fruit loss experience of 5 to 10 percent in the field, the Israeli machine is reported to have a loss experience of from zero to 3 percent.

The machine likewise, allows the higher range of maturity (90-95%). Its capacity was estimated by the Crop Mechanization Division of the Agriculture Department to be from 10-12 m.t. per hour. The manufacturer reported that due to increased speed of belts and other moving parts, capacity in 1984 is expected to be from 12-15 m.t. per hour. Cost of the machine is $95,000.00 to Israel buyers.

Another consideration about comparative performance by the U.S. and Israel harvestors is that California machines are made for beds 1.7 meters wide (66.9"), but Israeli farmers use beds that center to center are 1.9 to 2.0 meters wide. Thus, U.S. machines tend to miss some fruit.

Because of the high percent of mature fruit prior to harvest, concern over green fruit is minimal.

Tomatoes are delivered in 1,000 pound bins, and in bulk trailers from which the tomatoes are flumed for washing.

Competing Crops

The main competition for canning tomatoes is from cotton. Kibbutzs prefer cotton over tomatoes even at some differential in returns because cotton is completely mechanized and has a low labor requirement. The average is 25 to 30 hectares of tomatoes, and 300 hectares cotton grown by kibbutzs.

At current prices (1984 tomato price of $64 m. t.), a yield of 32 tons per acre is the indifference point, according to the Vegetable Growers Association. Above 32 tons, returns are higher for tomatoes; below 32 tons returns from cotton are higher, based on yields of 1800 kilos (4000 pounds) of seed cotton (cotton with seed).

There is a common belief that growers harvesting less than 30 tons/acre are marginal, and will opt for cotton at comparative prices.

Costs Of Production - Tomatoes

Table 2 gives cost of production figures for a typical tomato farming operation. Costs presented are per dunam, which is one-fourth acre; therefore, multiplying the figures by 4 converts them to an acre basis.

Pre-harvest costs are $308 per dunam, or $1,232 per acre. At the prevailing concensus of 7 to 8 metric tons/dunam being a "break-even" yield, net returns are $85 to $140 per dunam. As explained in the footnote to the table, the harvest and hauling charges were subsidized by the processor because of its form of organization, and therefore, these costs are substantially understated. In reality, at typical hauling charges of $12 to $14 per metric ton, a yield of eight tons would involve a cost of $96 to $114 per dunam. Since the charge of about $64 per dunam for harvest and hauling does not compensate for real costs, including harvesting, it is reasonable that eight tons per dunam as the break-even yield is quite accurate for 1983 conditions.

Table 2. Typical Costs of Production, 1983
(U. S. Dollars/Dunam = ¼ Acre)

Costs/Dunam or U. S. Dollars/¼ Acre

Land Preparation, Cultivation	$ 32.54
Pesticides, Fertilizer	90.94
Seed	3.00
Water	37.50
Interest on Operating Capital (4%)	6.55
Subtotal, operating expenses	170.53
Overhead, including Management	17.50
Subtotal	188.03
Labor Wages (excludes harvest)	120.00
Subtotal, preharvest expenses	$308.03

	7 m.t.	8 m.t.	9 m.t.	10 m.t.	11 m.t.	12 m.t.
Above Prod. Costs	308	308	308	308	308	308
Harvest, Hauling, etc. a/	55	63.83	72.68	81.54	90.39	99.24
Total Costs (excluding rent, irrigation system depreciation)	363	371.83	380.68	389.54	398.39	407.24
Cost per Metric Ton	51.86	46.48	42.30	38.95	36.22	33.94
Total Gross Income ($64.00 per ton)	448	512	576	640	704	768
Net $/Dunam	85	140.17	195.32	250.46	305.61	360.76

a/ These figures understate actual harvest costs, because these costs are those incurred by growers. Not included are a part of harvesting costs which are borne by the processor--an unusual situation in Israel.

Table 3 gives estimated comparative costs and returns of growing tomatoes for processing by type of producing organizations, i. e., individual, Kibbutz, or moshav, based on a study conducted by the Institute of Farm Income Research of the Ministry of Agriculture.

Yields averaged 7.8 metric tons per dunam and ranged from 7.2 for the kibbutzs to 9.0 metric tons for individual growers. As previously stated, kibbutzs tend to have larger areas for growing tomatoes, while individual growers have smaller areas, and can give more attention to their fields. These are apparent from the line reflecting value. The value of product from individuals reflects higher values, due probably, to greater attention to growing conditions and probably to better harvested quality (due to hand harvesting). Also, returns to individual growers are substantially higher than for other organizational growers. Surprisingly, returns to kibbutzs are given as higher than for moshavs, which are individual growers involved as cooperatives. Much of this is attributed to higher fertilizer costs with moshav members.

Growers tomatoes for processing is more profitable in some regions than others (Table 4). Returns are highest in the coastal plains (Nahariya), Inner Plains, lower Galilee, and the Yezreel Valley. These are the main producing regions for Israel.

Table 3. Estimated Comparative Costs and Returns of Israel Processing Tomato Production by Production Sector (1,000 Israel shekels per ¼ acre)

	Average For All	Kibbutz	Moshav	Individual
Yield/Dunam (m. t.)	7.787	7.247	7.833	9.028
Value (1,000 I. S.)/Dunam	15.880	14.992	16.011	17.716
Total Direct Expenses	7.418	6.758	7.627	7.445
Harvest	0.754	1.756	0.599	0.865
Fertilizer	1.292	0.484	1.464	0.963
Fixed Costs	8.462	8.234	8.384	10.271
Nu. Days Labor Used	11.5	9.7	11.7	12.8
Harvest Labor	7.1	5.8	7.1	9.7
Gross Profit	4.824	3.945	4.937	6.080
Total Prod. Expenses	14.404	13.513	14.786	14.282
Profit/Loss	1.476	1.478	1.226	3.435

Monetary values are 1,000 Israel shekels per dunam. One dunam is ¼ acre, or .1 hectare.

Source: Profitability of Processing Tomatoes, Institute of Farm Income Research.

Table 4. Comparative Costs and Returns of Israel Processing Tomatoes by Geographic Region, per ¼ Acre

	Neger	Eshalon	Lod	Nahariya Coastal Plain	Yezreel	Inner Plains	Lower Galilee
Yield/Dunan	8.11	6.67	7.29	7.56	8.64	9.18	8.36
Value (1,000 I. S.)	15.18	13.99	15.24	15.98	17.58	17.67	17.04
Total Direct Expense	7.79	6.85	7.64	6.59	7.55	7.90	7.53
Mechanical Harvest Costs	0.266	0.861	0.667	0.958	0.923	0.882	0.684
Fertilizer Costs	1.26	1.26	1.70	0.86	1.00	1.10	1.23
Fixed Costs	7.39	7.15	7.59	9.39	10.03	9.76	9.51
Nu. Days Labor	11.5	11.3	12.5	9.3	11.5	13.0	9.6
Harvest Labor	6.6	6.5	6.9	6.0	8.0	10.0	6.3
Gross Profits	3.215	3.285	3.4	6.854	6.982	5.638	6.883
Total Costs	16.108	14.476	14.240	11.463	15.511	14.597	14.114
Profit/(Loss)	(0.926)	(0.482)	0.997	4.517	2.073	3.070	2.922

Monetary values are in 1,000 Israel shekels.

Source: See Table 3.

Pricing System

All growers (including kibbutzs) are members of the Vegetable Growers Association by fiat. This association negotiates with processors for a farm price and other contract terms much as does the California Tomato Growers Association. The V. G. A. has 40 organizations, such as kibbutzs and moshavs, as well as several thousand independent growers as its members. Negotiation is carried out in December and January. Prices are negotiated in U. S. dollars, and premiums are established for early and late crops. In addition, some sharing of transport costs may exist when farms are 60 or more miles distant from processing plants, but this is not a universal situation.

Each processor establishes his own tolerances for defects. Since many of the plants are owned by kibbutzs or moshavs, the final decision is made with grower involvement.

Prices established through negotiation include costs of transportation from the farm to the cannery and reflect the expected potential market value of the processed products. This is essentially the same process as is used in California. The problem is that such prices reflect a combination of end product values that somehow is considered "typical" for the industry. That is, it is assumed that each processor ends the season with similar product mixes, so that a single price established for tomatoes for all uses is an equitable price for every use; but since product values differ for finished products, and substantial differences exist in the elasticity of demand for each product, a single price is not necessarily an equitable price for every product use, considered individually.

The Israel Vegetable Growers Association has recognized this problem and has proposed a system of valuing tomatoes on the basis of soluble solids. This will probably be tried in 1984 with one processor to test the concept and to better arrive at values for categories of solids. It is especially significant to concentrators.

The average Brix for the "pilot" processor in 1982 was 5.04 percent and in 1983, 4.7 percent, with a two-year average of 4.9 percent. In the proposed payment schedule, the negotiated price is standardized for Brix measures of between 4.7 to 4.9 percent. Values for higher and lower Brix values expressed as U. S. dollars per metric ton are given below:

Brix Higher than Standard:

Brix Range	$ Premium per Metric Ton
4.9 - 5.1	$ 3.60
5.1 - 5.3	7.20
5.3 - 5.5	10.80
5.5 - 5.7	14.40
5.7 - 5.9	18.00
5.9 - 6.1	21.60

Brix Lower than Standard:

Brix Range	$ Discount per Metric Ton
4.5 - 4.7	$ 2.60
4.3 - 4.5	5.20
4.1 - 4.3	7.60
3.9 - 4.1	10.20
3.7 - 3.9	12.80

Simply, a premium of $3.60 per metric ton is proposed for every two-tenths increase in Brix above the standard, while a $2.60

discount is proposed for every .2 decrease in Brix from the standard.

The basis for these differences were agreed to by the V. G. A. and one processor and may not reflect actual values accurately. The proposed ranges suffer from ambiguity due to the fact that the lower range in one category is the upper range in another, so where to place a particular load may be a problem.

Coordination

Close coordination exists between processors and farmers, and annual contracts are the basis for this coordination through specific acreage and/or tonnage being specified. Varieties are determined by the processor who also specifies planting and harvesting dates for each grower.

Farm Subsidies

Grower incentive payments which have prevailed in previous years were abolished for the 1984 crop. In 1982, growers received $11 per metric ton from the government, and in 1983, this amounted to $3.78 per metric ton.

There is no evidence of other forms of subsidies to tomato growers other than a small reduction in interest charges for operating capital.

Processing Structure

To understand the tomato processing industry, one needs to be familiar with the citrus industry. The processing of tomatoes is an outgrowth of the processed citrus business in Israel. Citrus is available for canning as segments or for single strength and concentrated juice from December to May.

Citrus products were an early outgrowth of the rapid expansion of the citrus industry during the early years of the nation. Acreage expanded more rapidly than fresh markets could absorb the fruit, and with increased consumption of juices, the canning of juice and fruit segments followed. Of the 1.5 million metric tons of citrus produced, 600,000 to 700,000 metric tons are diverted to products. A Citrus Products Board is the statutory association for the conversion of citrus into processed form. The Board determines market needs and allocates volume to individual growers much as the California-Arizona citrus industry allocates shippings to individual packing plants under federal marketing orders.

Since 1979, the acreage of citrus grown in Israel is declining because returns are low relative to other crops. Water costs are high and rising in Israel while production has expanded in other countries. The Israelis believe citrus acreage will continue to decline in Israel and that citrus will be grown mainly in developing countries which lack the resources to shift to other crops and more profitable processed foods. Israel's citrus lands are being planted to avocados, cotton and tomatoes for processing.

About 30 percent of the citrus is grown by kibbutzs. These are the biggest groups shifting out of citrus to cotton and tomatoes because they have the largest capital resources, more land and more equipment to facilitate crop shifts. They have good cost and return records and, surprisingly, despite their decision process which involves a board, can make fairly fast decisions on cropping patterns.

Structure of Industry

There are 21 factories producing processed citrus products of which 12 have juice operations which process the 600,000 to 700,000 metric tons during the six-month citrus season. All of the 12 juicers can manufacture tomato products, and nine presently are doing so. In addition, there were seven other companies that processed tomatoes in 1983 for a total of 16 companies.

Table 5 lists all 16 companies that processed tomatoes in 1983 along with their planned and achieved tonnage. The largest company, Milos, is owned by a group of 26 kibbutzs. In 1983, it processed 87,100 metric tons of tomatoes which was 30 percent of the nation's total. In 1984, it plans about the same tonnage. (A description of some of these companies, including Milos, is attached as an appendage). Jaffa-Mor, owned by a moshav (cooperative) is the second largest tomato processor, processing 37,721 tons in 1983 but planned for 45,094 tons. Its actual tonnage was 13 percent of this nation's total. Pri-Ha'emek is owned jointly by a group of kibbutzs and a moshav and processed 29,500 tons in 1983 which was 10 percent of the total. The fourth largest company is private, Pardes, and packed 22,070 metric tons, or 7.5 percent of the total.

These statistics reveal the high concentration of the tomato processing industry in Israel. In 1983, the four largest processed 176,391 metric tons, or 60.5 percent of the nation's total against planned deliveries of 197,307 metric tons.

Table 5. Tomato Processing Companies and Comparative Volumes, 1983 Production (metric tons)

Company	Ownership	Planned	Actual	% of Planned	Market Share of Total
		- metric	tons -		
Milos	Kibbutzs	92,418	87,100	94.2	30
Jaffa-Mor	Moshav	45,094	37,721	83.6	13
Pri-Ha'emek	Kibbutzs & Moshav	33,055	29,500	89.5	10
Pardes	Private	26,740	22,070	82.5	7.5
Subtotal, 4 largest		197,307	176,391	Ave. 87.4	60.5
Pri-Tnuva	Labor Union	20,830	15,579	74.8	5
Jaffa-Ora	Private	20,565	15,091	73.4	5
Pri-Ze	Private	15,306	14,410	94.1	4.9
Pri-Taim	Private	14,910	16,834	112.9	5.7
Subtotal, 2nd 4 largest		71,611	61,914	Ave. 88.8	20.6
Haddar	Private	14,400	12,164	84.5	4.1
Gan Shmuel	Kibbutz	11,005	11,090	100.8	3.8
Yahkin	50-50 Jewish Agency for Palestine & Labor Union	10,200	9,795	96.0	3.3
Pri-Cooz	Labor Union	9,910	8,882	89.6	3.0
Pri-Man	Private	9,405	8,000	85.1	2.7
Vita	Private	1,350	2,950	215.8	1.0
Decko	Kibbutz	1,200	1,025	85.4	0.3
Rimon	Kibbutz	500	616	123.2	0.2
Subtotal		57,970	54,522	Ave. 94.9	18.4
Totals		326,888	292,827	Ave. 89.6	99.5

The second group of four processed 61,914 metric tons in 1983 and accounted for 20.6 percent of industry deliveries. Three of these firms were privately owned corporations (although some were stock-traded companies), and one was owned by Snoova, a marketing organization owned by a labor union.

Although these 16 firms planned for 326,888 metric tons and achieved 292,827 in 1983, they are expected to desire 400,000 metric tons in 1984 and are said to have the potential to handle 500,000 tons with minor additions of equipment. Production plans were not available for each of the companies, but six have indicated expansion plans for 1984 over 1983's output. Pri-Ha'emek expects to receive 45,000 metric tons (33,055 planned in 1983, 29,500 achieved); Vita, a private firm, expects to receive 13,000 metric tons in 1984, up from 1,350 planned and 2,950 achieved in 1983. Other firms expected to expand in 1984 are Gan Shmuel, Pri-Taim, Pri-Ze, and Haddar.

One new plant under construction by a group of moshavs in the Yezreel Valley will produce tomato concentrate only from 20,000 metric tons raw product contracted for 1984. Its operating period will be four months in contrast to eight months of equipment use in the established plants.

It is not clear whether the downward trend in citrus production will be equally divided among fresh or processed citrus products. Because Israeli citrus officials believe production will tend to move to less developed countries, it is reasonable to assume such countries will lack the resources to build processing plants and, therefore, will produce citrus mainly for fresh markets. Thus, Israel's processed citrus base may remain at existing levels, and the production decline may occur mainly with the fresh sector so that the firms that process citrus for five to six months, and tomatoes for three to four months, may have a significant cost advantage over a new specialized tomato concentrate plant that is used for only three to four months. Since the concentrating equipment is the same, older multi-product plants should have an advantage over new specialized concentrating plants in Israel and probably over many California plants which operate for three to five months.

Interestingly, one company which appeared to have a good, well-maintained plant, stated the firm was not profitably able to compete with Italian tomato paste production and, therefore, was shifting output to crushed (diced) tomatoes packed in aseptic bulk containers, such as drums and large breakdown wooden cartons lined with food grade plastic, and large stainless steel containers, such as is used for concentrate fruit juices. Although the French and Germans "liked" diced tomatoes, this firm considered the U. S. to be its main market for their product. This was confirmed in talks with other processors, including the largest, Milos. The main investments in equipment for the 1984 season are being made for diced and crushed products.

Equipment used for citrus and tomato products are similar to those used in other countries: Rossi-Cottelli, A. P. V. concentrators, and Urschell Laboratories equipment for dicing.

Nowhere did we see energy conversion capacity from cannery wastes, although, citrus peel byproducts are thoroughly processed with the remaining cellulose material used for cattle feed.

Information on processing costs are unavailable, but some partial cost estimates and actual costs were obtained from a variety of sources. For example, published (newspaper) accounts show that Israel processors paid I. S. 18,433 per metric ton for heavy fuel oil in 1983 which was increased to I. S. 21,198 for the first quarter of 1984. At the prevailing exchange rate on January 9, 1984 (100 I. S. = $1.14), this amounts to a 15 percent increase for the first quarter. With inflation expected to continue to increase from an annual rate of about 275 percent (currently three quarters of one percent per day) to 400 percent by yearend, fuel costs are expected to increase further by the time the tomato processing season begins.

We have estimated that fuel costs in California constitute 2.6 percent of the total tomato processing costs, given the average product mix of California's tomato processing industry. If we assumed fuel costs in Israel as a percent of total costs are the same as in California, the increased cost to Israeli processors would be about 0.4 percent which could actually escalate to a one percent increase before the tomato processing season is completed.

For tomato paste, we are told that raw product constitutes 50 percent of total processing costs in Israel, and labor is between 22 and 25 percent of total costs. If energy is 2.6 to three percent, containers one percent ($30 to $34 per drum), then all other cost components, such as factory burden, finance, supervision and management, and warehousing, comprise between 20 to 25 percent of remaining processing costs for paste.

Labor rates in Israel's canning plants are low compared with California's unionized wage structures. Arabs constitute the main work force in Israeli canneries, and production line workers, such as sorters and preparation and inspection line workers, are paid the equivalent of $1.00 per hour. A mechanic receives about $320 per month.

Figures on the revenue side were obtained from one processor for 30° to 32° Brix concentrate from which the following delivered price was established:

FOB Haifa, 30° to 32° Brix concentrate	$793 m. t.
Freight	90
Customs duty	107
Reported costs @ eastern U. S. ports	$990 m. t.

Even though these costs are highly aggregated, and do not provide specifics on domestic transport charges to Haifa, loading charges, port terminal charges, brokerage, etc., they are amazingly close to delivered cost estimates previously reported for Portugal at $1,032 per metric ton.

The Israelis were reporting a California price of 50 cents per pound at the time these estimates were obtained.

It is clear that the processor sector of the Israeli tomato industry can earn satisfactory returns at an FOB price of 36 cents per pound since the industry is expanding tomato processing capacity.

The industry, as a group, negotiate ocean transport rates that are lower than published tariffs.

Tomato Products and Marketing

The Israeli industry is very responsive to changes in market demands, and responds quickly. Utilization of tomatoes by Israeli processors was different in 1983 than even in 1979, a short period of time. Two sets of statistics are presented, which show these changes.

First, we have statistics on value of exports by four tomato product categories, with data obtained from the governmental export statistics. In C. Y. 1979, tomato juice exports exceeded the value of all other export tomato products, closely followed by crushed and whole-peeled tomatoes. Of significance also, is that only 15 percent of the concentrate, 14 percent of crushed and peeled tomatoes, and 14 percent of the sauces, including pizza, were exported to the U. S. (Table 6). In 1982, concentrated tomato paste was the main product, followed closely by crushed and whole-peeled packs. Of these, 86 percent, and 84 percent, respectively, were exported to the U. S. Fifty-five percent of the sauces were exported to the U. S., too, while only 5.7 percent of the tomato juice was shipped to the U. S. We are told the proportion of the product mix shipped to the U. S. in 1983 is about the same as for 1982, but a larger share apparently going to diced and crushed.

The foregoing statistics are based on value of exports, which mask the price differences among products. We don't have access to specific products within categories, but from annual processed tomato reports from the U. S. Agricultural Attache in Israel, some comparisons by categories is possible, (Table 7). A shortcoming of this data is it hides trends among products within categories. For example, while the total percentage of the crop that is canned shows a decline in the recent years, the amount sold as diced or crushed tomatoes has increased considerably.

Also, note that 1983 statistics are preliminary.

Table 6. Value of Israeli Tomato Products Exports, C. Y. 1979-1982

Product	$ Value of Total Exports (millions)	$ Exports to U. S. & Canada (millions)	% of Total
	1982		
Crushed & whole-peeled	$ 9.2	$7.7	83.7 %
Concentrate	10.7	9.2	86.0
Sauces inc. pizza	6.0	3.3	55.0
Juice	3.5	.2	5.7
	1981		
Crushed & whole-peeled	$ 7.6	$5.0	65.8 %
Concentrate	8.0	6.0	75.0
Sauces inc. pizza	4.9	1.7	35.0
Juice	4.7	.1	2.1
	1980		
Crushed & whole-peeled	$ 3.7	$1.0	27.0 %
Concentrate	3.2	.029	0.09
Sauces inc. pizza	2.7	.336	12.4
Juice	5.5	.007	0.13
	1979		
Crushed & whole-peeled	$ 5.9	$ .817	13.8 %
Concentrate	3.7	.567	15.3
Sauces inc. pizza	2.4	.338	14.1
Juice	6.3	---	---

Table 7. Percent of Crop Utilized by Product Categories, Calendar Years, 1978-83

Product	1978	1979	1980	1981	1982	1983 (Prelim. estimate)
Canned	9.2%	14.3%	9.3%	17.3%	15.9%	14.6%
Paste	43.3	35.5	36.8	48.1	42.3	47.7
Catsup	6.9	13.4	11.6	11.9	14.2	11.8
Sauces	4.8	4.9	4.1	3.3	2.1	1.8
Juices	22.9	8.3	19.3	5.6	11.3	8.9
Puree	12.2	12.3	5.4	5.4	5.3	4.5

Source: Agricultural Attache Reports, Israel, Foreign Agriculture Service, U. S. D. A., respective years.

Examination of preliminary estimates from this source reveals substantial revisions have been made in subsequent years. Therefore, the 1983 utilization estimate is tentative and based on previous revisions, subject to considerable change.

Overall, the percentage of the crop utilized as juice, sauce, and puree is shown to have dropped. However, in absolute terms, their pack may be about the same because of the increased industry output during these years. Packs of canned whole peeled, and concentrate paste have increased, even though they show large fluctuations from year to year. The percentage of the crop used for catsup has remained fairly constant.

For 1984, the trade expects to increase the pack of diced (crushed) canned tomatoes, and to pack the output largely in #10 tins and aseptic drums.

The industry is very responsive to opportunities and, because of the comparatively small size of their companies, are able to make quick decisions on product form or containers. In fact, that appears to be a competitive strategy. Some Israel firms are shifting to specialty tomato products or packages, on the belief they are better able to do so than are California processors, who are all thought to be so large and unable to respond due to their scales of operations. For example, one processor is moving into aluminum pull-top (ring) cans for the 100 gram (3.5 oz.) size, using Olida cans from France, for concentrate of 22° Brix.

Prices

Even though the U. S. is the major market for Israel tomato products, it is still of interest to compare FOB prices of its shipments elsewhere with those to the U. S. This information is given in Table 8 and is based on statistics from the Israel Central Bureau of Statistics, as reported by the U. S. Agricultural Attache in Israel.

In the case of tomato puree and concentrate paste, FOB prices in C. Y. 1982 were very close for sales to the U. S., Canada, and the U. K. In 1981, however, prices to the U. K. were substantially less.

For crushed or whole-peeled tomatoes, again, prices were very close. However, in 1981, prices to Canada buyers were lower than for U. S. and U. K. buyers.

Comparison was also possible of comparative FOB prices for concentrate tomato paste imported into the U. S. for fiscal years 1981-1982, and '82-'83. These comparisons are given in Table 9 in dollars per metric ton. These values were calculated from quantity and value data for these fiscal years from Foreign Agriculture Service, U. S. D. A. It is not clear from the source itself whether these are duty paid, landed prices or FOB originating country prices. Care is needed in their application except that for comparing prices from various sources they should be acceptable.

Although Mexican paste prices declined considerably in 1982-83, prices from Israel, Taiwan, Italy, and Greece were stable. Spain and Turkey adjusted upwards, while Portugal's prices declined slightly.

Statistics in Tables 8 and 9 do not support any contention that Israel was engaged in low pricing in recent years to obtain U. S. dollars for foreign exchange purposes.

Table 8. Comparative FOB Prices for U. S., Canada and U. K. Shipments by Israel Processors, C. Y. 1981 and 1982

Receiving Country	C. Y. 1981	C. Y. 1982
	- - - - - $ metric ton	- - - - - -
Tomato Puree and Concentrate Paste		
U. S.	$701	$686
U. K.	610	688
Canada	721	691
Crushed or Whole-peeled Tomatoes		
U. S.	$500	$490
U. K.	500	501
Canada	468	512

Source: Annual Tomato Reports, Israel, U. S. Agricultural Attache.

Table 9. Comparative Prices for Tomato Paste Imported into the U. S., F. Y. 1981-82; 1982-83

Exporting Country	F. Y. 81-82	F. Y. 82-83
	- - - - - - - - $ metric ton -	- - - - - -
Mexico	945	773
Italy	858	859
Greece	744	738
Portugal	756	801
Turkey	827	804
Israel	655	695
Taiwan	771	774

Source: Foreign Agriculture Service, U. S. D. A.

Subsidies

One needs to be cautious in asserting that Israeli processors receive no subsidies, although the evidence is fairly clear that there are no (direct) subsidies to processors. What is not clear, however, is whether there are capital grants to companies or cooperatives (or kibbutzs) for construction of new plant or for purchase of new equipment, which does not show up as debt on the firm's financial statements. This practice is common in some European countries, with the grant merely showing as a part of the firm's assets, often without any note that a grant has been received. There is no evidence of the type of abuse of the EEC-CAP as reported by newspapers involving Italy or Greece tomato processors.

There is evidence that the government subsidy to growers of $11 per ton paid in 1982 and $3.78 per ton paid in 1983, are to be abolished in 1984. Farmers do receive a reduction of sorts for interest on operating capital, which is said to amount to one-half percent of the interest charge.

Processors have been protected against exchange rate gyrations, but with the industry calculating grower prices, and sales prices in U. S. dollars, the exchange rate protection is of limited application.

APPENDIX

Notes on Selected Processing Companies

Milos Citrus and Fruit Products Company

Milos is owned by 26 kibbutzs which have organized the Haifa Bay Settlements Development Company, Ltd., a holding company comprising 10 separate operating companies. Milos is the citrus and fruit products processing venture which is Israel's largest processor of tomatoes. In 1983, it processed 87,100 metric tons but had planned to process over 92,400 metric tons. Ten years ago, the company processed 20,000 metric tons. For 1984, it expects to receive about 80,000 metric tons.

(The company is hesitant to provide information about itself and, by many standards, could be called secretive to outsiders. However, its activities are well known to competing firms, and much of the following description comes from these sources or from public relations materials supplied by Milos.)

Eighty percent of Milos' tomatoes are used for 28° to 30° Brix paste packed in drums for export. It processes very limited quantities of juice. Whole-peeled and diced tomatoes make up the balance of its pack which are packed in #10 tins and smaller containers. The production engineer states their recovery of paste ranges from 4.6 to 5.2 and averages about five percent. This is above the national average of 4.76 for 1983 but consistent with the coastal area from which its tomatoes are grown.

Even though it is owned by kibbutzs, Milos obtains only 25,000 metric tons from its owners with the balance purchased from other supplier and independent growers.

Milos has 200 yearround employees and 300 seasonal workers for the tomato pack.

Besides its citrus and tomato processing plant, the holding company operates an integrated central feed mill company; broiler processing company; cotton gins and compressors; vegetable oil crushing; fresh tree fruit packing (avocados, apples, pears); banana packing and ripening; data processing services; product development laboratories; and is a manufacturer of portion-controlled meal components and T. V.-type meals.

Milos' capacity is 1,400 tons per day in three shifts.

Pri Ha'emek Cooperative Association

Pri Ha'emek was Israel's third largest tomato processing company in 1983 and, with its expanded output planned for 1984, could become the second largest firm.

Pri Ha'emek is a cooperative owned by 40 kibbutzs and moshav organizations established in 1965 near Nazareth in the northern part of the Yezreel Valley.

In common with other processors, it started with citrus products and other fruit juices and purees. Today, its tomato products include the following items which, because of the company's fast growth, are described in considerable detail.

Tomato Products:

1. Juice, 5.5° to 6.5° Brix, packed in all container sizes including 6 gallon aseptic Scholle bags in carton and aseptic Scholle bags in 55 gallon drums.

2. Puree with a Brix of 8.6° to 21.5° and with Howard mold count maximum of 25%. This product is packaged in #10 and 5 kg. tins, in aseptic Scholle bags in 6 U. S. gallons and 55 gallon drums.
3. Concentrates. Three concentrate pastes are provided.

   One is a product of 18° to 24° Brix which is cut back by addition of tomato juice. It is packaged in the same containers as puree, plus it is deep frozen in 200 liter steel drums (52.8 gallons).

   The second concentrate product is a 26° to 32° Brix hot break paste with a viscosity of maximum 6.0 (on the Bostwick viscosimeter at 20°C in 30 seconds with dilution to 13° Brix by refractometer). This is packed in the same manner as the lighter Brix paste.

   The third product is actually a paste of either 48° to 50° Brix or 58° to 60° Brix. The 48° to 50° product is frozen in 200 liter steel drums and the higher Brix concentrate in ambient temperature, also in 200 liter steel drums.
4. Pizza sauces. A choice of five sauces are available, ranging from 9° to 10°; 12° to 14°; 15° to 16°; 18° to 19°; and 24° to 25° Brix concentrates. These have a maximum Howard mold count of 30% and are packaged in #10 and 5 kg. tins, or Scholle 6 gallon cartons, or 55 gallon steel drums. A tomato sauce of 7° to 13° Brix is also available, packaged as above, and containing fewer seeds and with herbs added to

buyer's specifications.

5. Special products.

Three products are included. The first is diced tomatoes in natural juice. Dice sizes may be 3/4" X 3/4"; or 3/8" X 1/2" X 3/8", packaged in either #10 or 5 kg. tins.

A second product is crushed tomatoes--diced tomatoes in tomato sauce. A standard composition of one part tomato puree and two parts small diced tomatoes can be modified according to buyer's needs to include herbs.

The third form is crushed tomatoes in puree. The diced tomatoes are available in three sizes: 3/4" cubes; 1/2" cubes; and 3/8" X 1/2" X 3/8" cubes. The number of pieces in relation to total volume are 35%, 45% or 65%.

Both of the latter products have a soluble solids of 8° to 9°, or 9° to 10° Brix. They are packed as the first product form.

Operationally, the cooperative has 250 regular employees in the canning operation plus 100 seasonal workers. In addition, there are 50 employees in the vegetable freezing plant. The plant has a capacity of 600 metric tons per day, employing three shifts. It considers a typical season to consist of 60 days of three-shift operations plus startup and winddown.

Contracts with its suppliers call for specific tons, rather than area such as acres. As with other processors, planting schedules are established for each grower, and harvest is coordinated to meet capacity limitations.

Yakhin Canning Company, Ltd.

Yakhin, the 11th largest tomato processor, processing about 10,000 metric tons, illustrates still more diversity from the others. Founded in 1927 as an agricultural contracting company engaged mainly in citrus grove management for absentee owners, Yakhin today controls 22 percent of all the citrus grown in Israel and owns 3,000 acres of citrus as a corporate investment. It operates 10 citrus packing plants and is involved in every aspect of citrus production from planting and cultivation to picking and packing of fresh fruit to processing of excess fruit into industrial products and juice. The Yakhin group employs about 1,600 permanent staff and more than 3,500 seasonal workers.

Eighty percent of its 1982 turnover of $100 million was exported to 35 countries on five continents, including the U. S.

Yakhin processes citrus products, canned vegetables such as corn, beans, celery, peppers, etc., as well as a complete line of tomato products. These include pizza sauce, crushed and diced tomatoes, whole-peeled tomatoes, and canned and frozen concentrate tomato juice in institutional-sized cans and in drums.

Despite its size, Yakhin believes it is more flexible than the California processors and has adopted a strategy of moving into specialty products and packs. It already has become s supplier of comminuted citrus juices with any combination of four components possible to meet buyers' needs--oil, peel, pulp, and juice.

1984 California Spring Lettuce Acreage

(Note: Last year's acreage is in parentheses)

Lettuce acreage in the San Joaquin Valley this spring is estimated at 12,400 acres, about 1,900 acres above last year. Acreage by area is: Kern district—4,600 (3,650); central San Joaquin Valley 7,800 (6,650). On the central coast, acreage for harvest from mid-March through May is estimated at: Salinas-Watsonville-South Bay area—13,700 (12,300); Santa Maria-Oceano-Lompoc—2,900 (2,900). Acreage for harvest on the south coast is estimated at 1,100 (900). First cutting started in the Kern district on March 12 and harvest started in the Huron area by the end of that week.

1984 California Desert FM Tomatoes

California's spring desert tomato acreage for fresh market is estimated at 3,200 acres, about double last year's acreage. Harvest should start about mid-April.

- MARCH 1, 1984 ESTIMATE -

1984 PROCESSING TOMATO INTENTIONS

In California an estimated 249,000 acres will be planted this year based on a recent intentions survey of tomato growers and processors. The intended acreage, which may vary due to weather or economic factors, is 3 percent above the 1983 contract planted acreage.

Weather for ground preparation and planting has been excellent since the first of the year. Plantings are on schedule and many growers are delaying plantings to meet their intended harvest dates. Plantings are complete in the desert and well along in the southern San Joaquin Valley.

California processors report intentions to contract 6,600,000 tons. This is an intentions figure and actual tonnage processed will depend heavily on weather during the bloom, set and harvest periods. The first actual forecast of 1984 production will be issued in September

Nationally, acreage of tomatoes intended to be grown under contract is estimated at 303,100 acres, an increase of 4 percent from last year. Higher acreage is expected in California, Delaware, Indiana, Maryland and New Jersey. Decreases are expected in other states except Colorado. Contract tonnage intentions for the U.S. is set at 7,608,490 tons, up 11 percent from the tonnage realized last year.

1984 WINTER POTATO PRODUCTION

California: Production as of March 1 is forecast at 1,456 million cwt., which is 15 percent above the 1983 winter season. Harvest has shown better yields than earlier anticipated, with about 50 percent of the crop harvested as of March 1.

United States: Winter production is forecast at 2.86 million cwt., up 31 percent from last year and 26 percent above 1982. The March 1 forecast reflects better yields than earlier anticipated in both Florida and California. In Florida, harvest should peak in mid-March. Prospects are good for the later diggings.

WINTER POTATOES: Acreage, Yield, and Production

State	1982	1983	Indicated 1984
	Harvested Acres		
	- - - - 1,000 Acres - - - -		
California	3.8	4.7	5.6
Florida	7.2	6.6	7.4
TOTAL	11.0	11.3	13.0
	Yield Per Acre		
	- - - - Cwt. - - - -		
California	245	270	260
Florida	185	140	190
TOTAL	206	194	220
	Production		
	- - - - 1,000 Cwt. - - - -		
California	931	1,269	1,456
Florida	1,332	924	1,406
TOTAL	2,263	2,193	2,862

TOMATOES FOR PROCESSING

State	AREA PLANTED				Contract Change 1984/1983	PRODUCTION				Contract Change 1984/1983
	1982 Total	1983		1984 Contract Intentions		1982 Total	1983		1984 2/ Contracts	
		Total	Contract				Total	Contract		
	Acres				Percent	Tons				Percent
Calif	253,000	239,500	236,000	249,000	+ 6	6,148,000	5,972,930	5,883,400	6,600,000	+12
Colo	1,100	1,100	1,100	1,100	0	13,830	17,550	17,550	20,600	+17
Del	1,300	840	840	1,300	+55	17,830	11,220	11,220	18,710	+67
Ind	7,000	7,800	7,100	7,900	+11	139,560	139,610	130,440	148,270	+14
Md	4,100	2,600	2,500	3,300	+32	64,620	35,280	34,250	49,320	+44
Mich	9,800	9,300	8,300	8,000	- 4	204,670	183,080	162,000	167,000	+ 3
NJ	5,600	4,400	4,000	4,300	+ 8	106,790	69,080	62,370	75,000	+20
Ohio	18,900	19,300	19,300	16,400	-15	368,100	408,960	408,960	346,000	-15
Pa	5,100	5,000	4,800	4,200	-12	84,250	82,150	79,130	73,940	- 7
Tex	2,800					24,570				
Va	1,900	1,700	1,300	1,100	-15	27,650	12,510	9,990	14,850	+49
Oth Sts 1/	7,040	7,510	5,710	6,500	+14	99,120	99,830	77,750	94,800	+22
U S	317,640	299,050	290,950	303,100	+ 4	7,298,990	7,032,200	6,877,060	7,608,490	+11

1/ 1982 - Fla., Ill., Iowa, N. Mex., N.Y., N.C., Utah and W. Va.
1983 - Ill., Iowa, N. Mex., N. Mex., N.Y., N.C., Tex., Utah and W. Va.
1984 - Ill., Iowa, N. Mex., N.Y., N.C., S.C., Tex., Utah and W. Va.
2/ Data represents processors intentions to contract. First production estimate issued in September.

STATEMENT TO THE UNITED STATES
INTERNATIONAL TRADE COMMISSION HEARING
ON THE ISRAEL FREE TRADE AREA

My name is William F. Allewelt, Jr. I am president and chief executive officer of Tri/Valley Growers, a farmer cooperative canning company, headquartered in San Francisco, California.

In 1983 it processed more than one million tons of raw product delivered 1,000,000 tn from over 700 farming operations. Eight different commodities are provided by our farmer members. Marketing proceeds from these 1983 crops are expected to produce farm income of nearly $100 million.

Most of our processing facilities are located in and around the communities of Modesto and Stockton. Over 3,000 people are employed year-round. Seasonal operations increase employment to nearly 14,000 people. Last year's payroll exceeded $120 million.

The effective conduct of our business rests upon optimized use of processing capacities and coordinated marketing services. Thus, even though there are distinct differences in market characteristics for each of the major product categories - tomatoes, fruits and olives - each is economically interdependent.

This interdependency focuses our strategic planning on three major market variables: first, the supply potential for each product category; second, market demand trends for each; and third, the impact of national policies on the workings of the marketplace for our products.

Our assessments must address certain fundamental realities:

subsidies?

Our markets for processed tomatoes are essentially limited to the United States, since potential export markets are effectively closed by both trade barriers and the persistence of world surpluses stimulated by home government subsidies for our foreign competition. In the United States, per capita consumption has stabilized.

With canned fruits, U.S. consumption has progressively declined over a two decade period. World markets for California's products have also been greatly reduced over this period because of protectionist measures by the EEC, which in turn have forced intensified competition for remaining markets.

California's olive canning industry concentrates its marketing on ripe olive products, a processing method developed locally, but certainly adaptable to the huge crops produced throughout the world in its Mediterranean climate zones. Indeed, in recent years imports of ripe olive products have entered the U.S. from Spanish sources. Canned ripe olives have enjoyed a steady but modest growth rate in U.S. per capita consumption. Arguably, this favorable trend is the result of an industry supported market development program funded by producers under a federal marketing order. This payoff for California producers is clearly jeopardized by the potential for invasion of our home markets by foreign products unencumbered by the cost burdens of market development and compliance with the California industry's quality control standards.

National policy initiatives that impact strongly on the marketability of our products are those pursued with international trade and with fiscal and monetary measures. Our industry has faired poorly in the conduct of international trade policies. Since the formation of the GATT, each round of renegotiations has brought a diminishment of U.S. duties on imports of competing products, but with no counterbalancing easement of the exorbitant levies and other trade barriers that impede or prevent sales of our fruit and tomato products in world markets. Even in the case of flagrant violations of the GATT agreements, our domestic industry has suffered excessively because of delayed and commonly ineffective responses by U.S. agencies entrusted to protect our trade rights.

Current initiatives of fiscal and monetary policies have driven the currency exchange rate of the U.S. dollar to such an extreme level that most of our exportable products are no longer affordable in traditional foreign markets. In turn, the dollar's inflated value has stimulated an accelerated flow of competing imports into our home markets with a de facto currency exchange subsidy.

Notwithstanding these volatile market variables, our strategic planning must develop conclusions critical to long term investment decisions involving both the farms of our members and the processing facilities of their cooperative. Once committed, these investments require relatively long periods of full utilization for their recovery. Clearly, such investments are not readily redeployable. It is equally evident that persistent under-utilization is unaffordable.

With this backgrounding, I trust it is clear that my testimony addresses not only the concerns of Tri/Valley's tomato producing members, but also those of all other commodity interests since each is economically his brother's keeper in this cooperative endeavor.

At issue is "The Probable Economic Effect of Providing Duty-Free Treatment for Imports from Israel." Our specific concern today is processed tomatoes.

It has to be presumed that duty relief on tomato products would encourage expansion of Israel's tomato processing industry and a corresponding acceleration of its exports to the United States. Our information indicates that Israel's industry can more than double current processing rates within a brief period. Under existing duties, imports of Israel's products over the past three years have averaged the equivalent of at least 50,000 tons of raw tomatoes annually. This is more than double the average annual rate of imports from Israel over the previous five year average. x

This recent growth of Israel's share in our home markets is associated with a parallel increase for imports from all sources. In the past three years total imports have averaged the equivalent of more than 600,000 tons of tomatoes annually. This compares to the preceding five year average of less than 200,000 tons.

This extraordinary increase cannot be attributed to production failures by the domestic industry. Clearly, the root causes are home government subsidies to foreign producers, including Israel, and the rapid rise of the dollar's exchange rate commencing in 1980.

Given the realities of stable consumption rates in the U.S., it is evident that any importations must have the effect of displacing domestic production. Under existing trade conditions a proposal to further stimulate imports from any foreign supplier is also a promise of awesome economic damage to our domestic industry.

I can measure the damaging impact of current rates of imports by Tri/Valley's business activity. Our cooperative markets approximately 10% of the processed tomatoes consumed annually in the United States. With this bench mark, we can logically assume that Tri/Valley is rationalizing its production to make room for an equivalent share of total imports, or about 60,000 tons of raw product annually.

This has removed more than 2,000 acres from farm production by our members and has reduced their farm income by more than $3 million. In turn, this has eliminated nearly $1 million of farm worker wages. It has reduced trucking fees and other expenses to deliver this tonnage to our canneries by more than three-quarters of a million dollars. It has deprived cannery workers of seasonal and year-round jobs that would have produced more than $1.7 million in wages and benefits. It has reduced purchases of supplies and services by almost $5 million. The direct idle capacity expense to Tri/Valley is nearly $3 million.

To sum up, the annual economic loss to our operations attributable to current import rates approaches $14 million. Obviously, if imports are encouraged to further expand, the burden of this economic loss will accelerate because of the enormous expense of idled fixed investment.

I should emphasize this analysis is merely a measure of economic loss now being incurred on the farm and through the processing level. Others must quantify the revenue loss resulting from over-supply conditions forced by totally unpredictable and steadily increasing rates of imported products.

Finally, I would ask you to address this issue in human terms; to face up to the horrible reality that any loss of employment opportunities for farm and cannery workers will painfully worsen our oppressive national problem of underemployment of citizens with limited skills. I would add that unemployment rates in the rurally oriented communities of California's central valleys already rank among the nation's highest. This is largely a result of depressed agriculture-based business activity which has been caused by declining shares for these products in home and foreign markets as a result of the dollar's strength. Just last month, the city of Modesto, a community of over 100,000 people, reported an unemployment rate in excess of 20%.

Mr. Chairman, Members of the Commission, Ladies and Gentlemen:

My name is John F. Stollsteimer. I am Executive Vice President of Swift/Hunt-Wesson Foods, Inc., a wholly-owned subsidiary of Esmark, Inc. We are one of the largest tomato processors in the United States, with three canneries in California, one in Ohio, and one in Tilbury, Ontario, Canada.

Based on published data, we believe we, on average, process approximately 14 percent of the total U.S. tomato crop. Our canneries produce a full line of tomato products, including whole peeled tomatoes, tomato sauce, tomato paste, and tomato ketchup. In addition to that, we manufacture a variety of specialty products such as barbeque sauce and Sloppy Joe Mix. All our products are sol under the Hunt® trademark. We sell not only to the grocery trade but also to the foodservice outlets which service restaurants, hospitals, and mass-feeding operations. We also manufacture and sel bulk tomato paste which is sold in the industrial market to other processors who utilize it in making such things as frozen pizza. Th you can see we participate in all aspects of the tomato market in the United States.

I wish to thank you for the opportunity to discuss with you an issue of crucial importance, not only to the tomato processors, but also t tomato growers, cannery workers, and our supplying industry, such as can manufacturers, corregated producers, and the transportation indu which moves our goods to market. My purpose here today is threefold

1) to demonstrate the recent dramatic growth in the imports of canned tomato products into the United States
2) to demonstrate the depressing effect these frequently subsidized imports have on the U.S. tomato industry, and
3) to demonstrate that a non-restricted trade agreement, such as that proposed for Israel, will accelerate the growth of canned tomato imports, reducing further demand for domestic produced products and result in a decline in domestic production, sales, and employment.

GROWTH IN TOMATO IMPORTS

Tomato imports have grown dramatically over the past three years, both in terms of the absolute volume of product imported and as a percent of the domestic crop. In Exhibit I, we have displayed total U.S. processing tomato tonnage as reported by the USDA on a crop-year basis and the tonnage equivalent of canned tomato product imports as reported by the U.S. Census Bureau. A review of this chart will demonstrate the degree to which imports have grown.

In the four crop years ending with 1980, the average level of tomato product imports was the equivalent of 173,000 tons. In that same four-year period, imports ranged from 1.5 to 2.75 percent of total U.S. production.

During the 1981 crop year, imports jumped six-fold from 110,000 tons fresh equivalent to 651,000 tons fresh equivalent and were equal to 11.4 percent of domestic production. In the 1982 crop year, imports declined to 561,000 tons fresh equivalent and were equal to 7.7 percent of domestic production. The 1983 crop year is not yet over, but based on the rate at which imports are currently entering the United States, it would appear that they will equal close to 700,000 tons fresh equivalent and will equal 10.0 percent of domestic production.

Thus, in the 1983 crop year, imported tomato products are estimated to be seven times greater than they were in the 1980 crop year and have grown from 1.7 percent of domestic production in the 1980 crop year to 10.0 percent of domestic production in the 1983 crop year. That, ladies and gentlemen, is what I mean when I say that imports of tomato products have grown dramatically over the past three years.

IMPORTS AS A PERCENT OF TOMATO PRODUCTS CONSUMED IN THE UNITED STATES

A report recently published by the International Trade Commission Staff 1/ illustrates the growth of imports as a percent of U.S. consumption of canned tomato products.

Exhibit II, which represents data taken directly from the referenced publication, indicates that imported tomato products represented 15 percent of U.S. consumption of canned tomato products in calendar year 1982 versus an average of 4 percent in the 1978-1980 period.

Exhibit III, taken from the same publication, indicates that for tomato paste, puree, and sauce, imports represented 24 percent of U.S. consumption in 1982 versus an average level of 4 percent in the 1978 through 1980 period. These data once again make the point that imported tomato products have made dramatic inroads into the domestic U.S. market over the past three years.

Thus, whether we view imports as a percent of U.S. production or a percent of U.S. consumption, their growth in the past three years has been substantial. One way to look at how important imports have become is to consider the fact that imported tonnage is currentl; the equivalent of:

- two of the largest tomato processing plants in the United States, or
- the combined total processing tomato production in Ohio, Michigan, and Indiana, or
- 65 percent of all U.S. processing tomato production outside of California

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1/ Summary of Trade and Tariff Information. USITC Publication 841 Control 1-8-43 February, 1984.

SOURCE OF IMPORTS

Exhibit IV displays the source of imported tomato products and rate of growth in imports from specific countries for the period 1977 through 1983. A review of this graph reveals that imports have increased sharply from all points of origin during the 1980 through 1983 period. However, in terms of growth in shipments to the United States, Taiwan and Israel have shown the greatest rate of increase. Taiwan's exports of tomato products to the United States were eight times greater in the 1982-1983 period than they were in the 1977-1980 period. Israeli shipments of tomato products to the United States in the 1982-1983 period were five times greater than in the 1977-1980 period. Thus, while Italy has been consistently the largest supplier of imported tomato products unto the U.S. market, Taiwan and Israel have become major factors in U.S. tomato imports in the past two years.

IMPACT ON DOMESTIC INDUSTRY

Having demonstrated the rate of growth in tomato product imports in the past three years, one might ask what influence have these imports had and what will be the impact in the future.

One way to measure the impact of this avalanche of imports is to look at the imputs . represented by imported tomato products in 1983.

The tonnage equivalent of 1983 imports would be equal to the following in terms of resources used by the domestic industry:

- two million man-hours of labor--or 2,000 seasonal manufacturing jobs
- seventeen million dollars of direct labor payroll
- twenty-eight thousand acres of tomatoes

- forty-three million dollars worth of income to U.S. tomato farmers
- fifty million dollars of packaging material normally supplied by U.S. manufacturers
- ten million dollars in transportation.

Thus, imports represent a substantial economic loss to U.S. labor, U.S. farmers, U.S. manufacturers, and the U.S. transportation industry.

I have previously stated that imports of tomato products are equal to the output of two of the largest tomato canneries in the United States.

IMPORT GROWTH RELATIVE TO GROWTH IN CONSUMPTION

One could ask is tomato product consumption in the United States growing at a rate which will support the substantial increase in imports we have observed without damaging the domestic industry. The consumption data prepared by the International Trade Commission Staff indicates a compound growth rate for tomato consumption in the 1977-1982 period of about 2.5 percent annually. Our own data on consumption of tomato products in total indicates a growth rate only slightly greater than population, with some markets growing whi others decline. Given either our estimate of market growth at 2.0 percent or the International Trade Commission's estimate of 2.5 perc annual growth, it is clear that increasing imports by 300 to 350 percent on an absolute basis, or from 4 percent to 15 percent of tot consumption, can only have the effect of reducing the market available to domestic producers.

Without the duty protection currently existing, this problem would be compounded to the point of substantial decline in domestic production and all that it implies.

HISTORICAL DATA ON DOMESTIC PRODUCTION, IMPORTS, AND FINISHED PRODUCT PRICES

In Exhibit V,we show U.S. production of processing tomatoes in fresh equivalent tons, imports in fresh equivalent tons, total supply, and our estimate of the relevant annual, average selling price for two products that compete directly with imports.

In the right-hand columns, we have listed our estimate of the prevailing average annual selling price for drummed paste and 6/10 whole peeled tomatoes for the year following production. In other words, production in 1977 is linked with prices for calendar year 1978. As you can see, tomato prices were very depressed in the 1977-1980 period, principally as a result of domestic overproduction. This was a period of time when proprietary tomato canners and cooperative canners suffered devastating losses with numerous plant closings. The market effect of this condition caused lower domestic production in 1980. Concommitant with that reduction in supply came a price increase which allowed both growers and processors to return to more normal returns. A crop shortage in 1981 created additional shortages which further helped prices. In 1982, domestic production resumed near normal levels. Importantl also, the U.S. experienced a dramatic increase in imports which created the largest tomato supply in history. Price declines were predictable. Profit compression was predictable. The resultant impact of imports is lower grower returns in the long-term and a continuation of a no-growth pattern in domestic tonnage.

Here we have our final chart, Exhibit VI. It has been developed for purposes of discussing subsidized imported tomato products and the ultimate effect on tomato growers. The 1983 calculations are based on our knowledge of costs and selling expenses for drum tomato paste.

The chart shows that subsidized Israeli tomato paste shipped in 55-gallon drums is available to U.S. customers at 43.08¢ per pound. To compete at such prices, the American cost to manufacture such paste plus a 10% gross profit to the processor would leave 9.45¢ per pound available to the grower. Calculating that out, it would indicate that in order for the California tomato grower to compete with subsidized Israeli paste on the East Coast, he would have to be willing to produce tomatoes for about $30/ton. This is some $25/ton less than the current prevailing market price.

We believe an efficient California tomato grower has approximately $40-50 of direct cash expenditures with normal yields. Since we believe that normal input for any agricultural crop are a function o world-wide markets, it is highly unlikely that direct cash inputs for the U.S. tomato industry are significantly different from the non-subsidized rates we'd find in other parts of the world.

The issue here is the subsidy. Dr. Kirby Moulton, Economist, Cooperative Extension Service, University of California, Berkeley, has shown that the combined Italian processing and grower subsidy is about $70-75 per ton for paste products. As I am sure you are aware the tomato subsidy in Italy is a function of those prices for import tomato products that are available for sale to Common Market countri including prices being offered by Israel. It should be readily apparent that if the California tomato grower and processor would receive a $70 a ton subsidy, the United States would be a serious competitor in the world market.

We are here today to discuss tomato imports and the Free Trade Area proposed for Israel. As indicated previously, this is a matter of concern to growers, proprietary canners, grower cooperatives, cannery labor, farm labor, and suppliers to the canning industry. We appeal to you to consider the impact of subsidized imports and particularly, the free trade issue with Israel and its effect on the U.S. tomato industry. Free trade is not our cause for concern here today. This industry would willingly compete on an equal basis with tomato processors throughout the world. The real problem is subsidized imports from whatever origin. As we illustrated previously, imported, subsidized tomato products directly threaten the economic survival of the U.S. tomato industry, grower and processor alike. Free trade for Israel will merely aggrevate the existing situation. We are not opposed to free trade, but we cannot compete with imports that are subsidized at levels that equal as much as 50 percent of the cost of production.

Subsidy amounts can be quantified through the Common Market and are based on values of tomato products available to the Common Market including those from Israel. None of our commercial contacts deny that Israel subsidies exist. In fact, all say, in general terms, that the Israeli method of cooperative farming and processing has subsidized the Israeli industry. We have been unable to document the exact degree of the subsidy. However, the ability of Israel to compete in what is known to be a highly subsidized world market industry provides strong indications that Israeli subsidies exist.

In closing, we ask that you consider the following points:

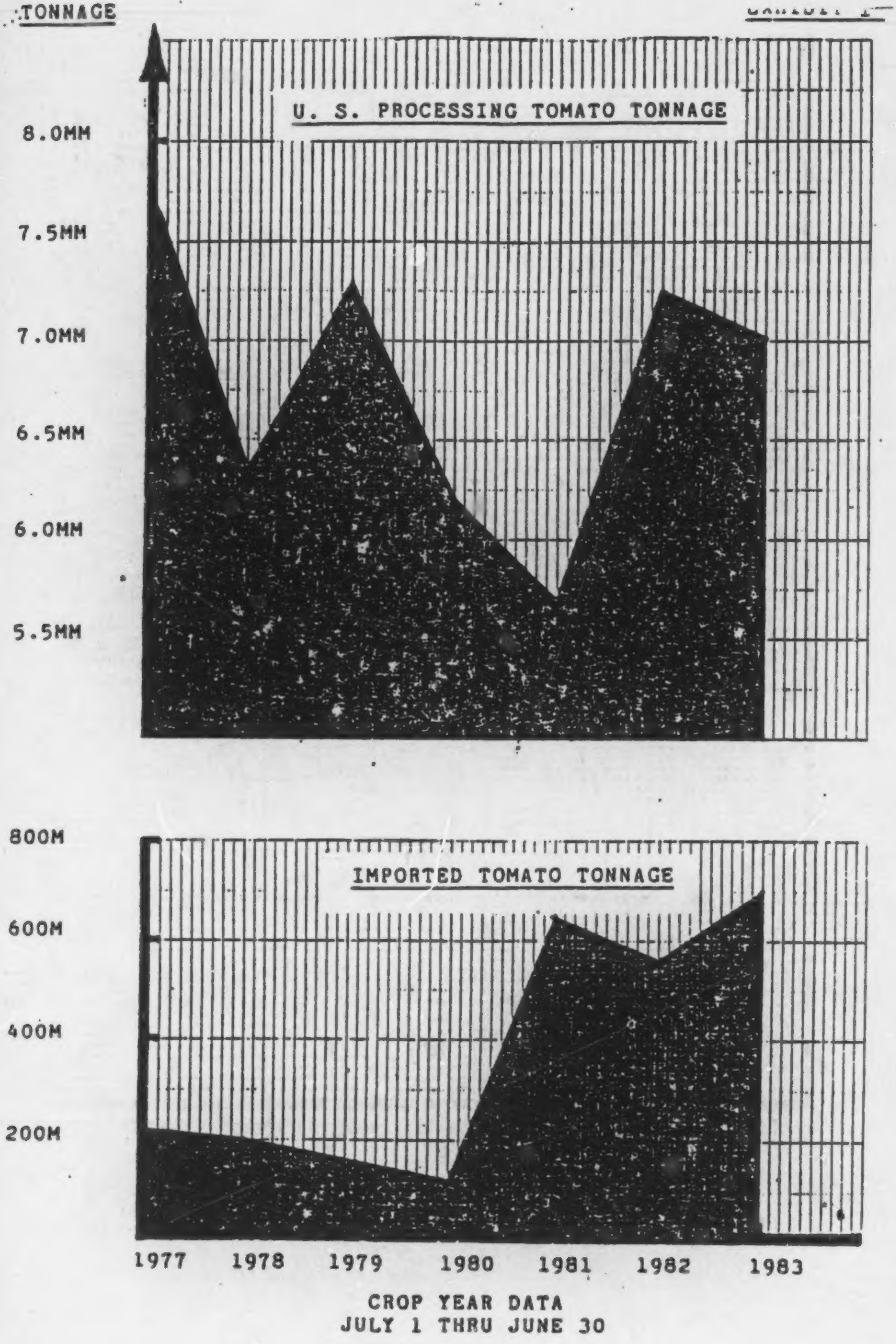
1) we urge that tomatoes be exempted from any free trade area for Israel that may be considered or granted

2) we further urge that the USITC seriously consider the nature of export subsidies on tomato products by the Common Market, Taiwan, Israel, and Mexico and the effect on the U.S. industry.

We, as a company, believe that competition is healthy for any industry. Competition within the U.S. food industry has provided a variety of nourishing, wholesome, and low-cost food products to American consumers at a declining percent of total disposable income. However, the U.S. industry cannot compete with imports that are subsidized to the extent this currently exists in tomato products. We urge that this Commission and other U.S. Government agencies take action to countervail against the actions taken by governments of other nations that have created the current situation.

Thank you very much.

EXHIBIT 1


TONNAGE
U. S. PROCESSING TOMATO TONNAGE
8.0MM
7.5MM
7.0MM
6.5MM
6.0MM
5.5MM
800M
IMPORTED TOMATO TONNAGE
600M
400M
200M
1977
1978
1979
1980
1981
1982
1983
CROP YEAR DATA
JULY 1 THRU JUNE 30

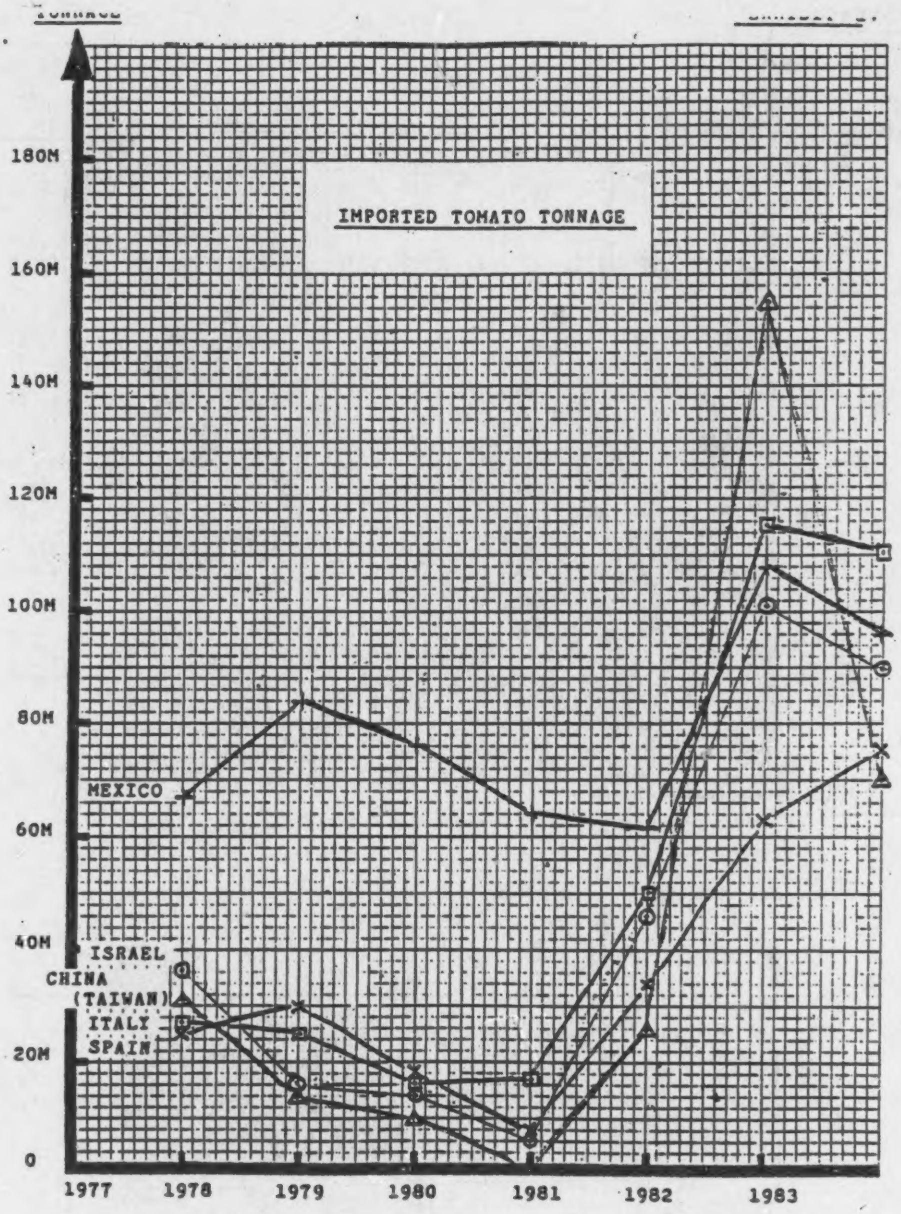

IMPORTED TOMATO TONNAGE
180M
160M
140M
120M
100M
80M
60M
40M
20M
0
MEXICO
ISRAEL
CHINA
(TAIWAN)
ITALY
SPAIN
1977
1978
1979
1980
1981
1982
1983

EXHIBIT V

U.S. PRODUCTION, IMPORTS AND PRICES

CALENDAR YEAR	TOTAL U.S. PRODUCTION (2)	U.S. IMPORTS (3) FRESH EQUIV.	TOTAL SUPPLY	PRICES (1) DRUM PASTE	6/10 WHOLE PEELED
1977	7,773,150	223,206	7,996,356	.369	8.29
1978	6,367,700	201,741	6,569,441	.359	7.54
1979	7,329,510	162,852	7,492,362	.372	8.68
1980	6,210,590	122,000	6,332,590	.500	10.85
1981	5,716,130	651,000	6,367,130	.622	12.15
1982	7,298,990	561,000	7,859,990	.498	11.33
1983	7,032,200	700,000 EST.	7,732,200	.475 EST.	11.65 EST.

1. PRICES ARE FOR THE YEAR FOLLOWING PRODUCTION.
2. FROM USDA CROP & LIVESTOCK REPORTING SERVICE.
3. U.S. CENSUS BUREAU OF TOMATO IMPORTS CONVERTED TO FRESH TONNAGE.

TABLE 8

The Impact of Increased Imports on Domestic Output and Private Sector Income, Sales and Employment, 1982 Base Year

	Case 1[1]	Case 2[2]
Increased Imports from Israel (1,000 6/10 cases)	5,353	5,353
Decrease in domestic sales revenues ($1,000)	50,330	63,592
Decrease in total personal income caused by output and price changes ($1,000)	61,050	77,137
Decrease in private sector sales ($1,000)	183,956	50,919
Decrease in private sector jobs (Full-time equivalent)	1,975	543

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[1] Domestic processors reduce output to offset imports.

[2] Domestic output reduced according to Brandt-French (1982) model.

SOURCE: Moulton (1984) pp. 12-13. Coefficients used are from Goldman and O'Regan (1983).

April 10, 1984

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STATEMENT TO THE UNITED STATES INTERNATIONAL TRADE COMMISSION HEARING ON THE ISRAEL FREE TRADE AREA

April 10, 1984

My name is David Zollinger. I am here today not only as executive vice president of California Tomato Growers Association and as a representative of approximately 530 California growers, but as chairman of the National Committee of Growers and Processors, Tomato Imports, representing more than 1,000 additional growers and 26 canning firms across the nation. It is on behalf of these deeply concerned entities that I appear to seek exclusion of processed tomatoes, TSUS Item No. 141.65, Tomato Paste and Sauce, TSUS Item No. 141.66, Tomatoes otherwise prepared and preserved, and TSUS Item No. 140.74 Tomatoes dried, desiccated or dehydrated, from the proposed free trade provisions with Israel.

California is frequently depicted as the land of fruits and nuts which is not entirely inaccurate. But in addition to that, the state's agriculture accounts for more than 200 commercially produced crops. Tomatoes are by far the largest of the canning crops, with just under 6 million tons produced last year. Despite this great diversity, the state's agricultural interests are in a precarious financial condition. According to California Crop and Livestock Reporting Service, 1983 gross cash farm receipts from farm marketing declined 4 percent between 1982 and 1983, from $14.3 billion to $13.7 billion. Of this amount, the California canning tomato crop accounted for a decline in total value of $54.5 million, with a total value of $377 million in 1982, down to $322.5 million in 1983. Price per ton to growers of processing tomatoes fell from $55.60 per ton in 1982, to $53.50 per ton in 1983, a reduction of $2.10 per ton. This year, 1984, California Tomato Growers Association is struggling to establish a price of $54 per ton, representing a mere 50¢ per ton increase from the depressed price of 1983.

To bring this picture into closer focus, let us consider the situation in Fresno County. Fresno County is the number one agricultural producer in the United States, and to the best of our knowledge, in the world. Its growers are innovators and experimenters and farming is intensive. It is also the state's number one producer of canning tomatoes, both in total volume and in tons per acre. Yields have consistently run well above the statewide average. Attached to this statement is a chart (chart 1), showing Fresno County's production and yields over the past four years, as compared to the state as a whole. Yet, despite all of the technological advances and innovative cultural practices, Fresno County growers are also in trouble.

In March of this year, Ken Billings, general manager of the Federal Land Bank Association of Fresno, speaking at a stockholder' meeting, said that the district of which his association is a part has the highest number of bankruptcies and has taken over more farm land than since 50 years ago.

"Two growers came to me last month and offered to deed their farms back to us because they can't sell their land for enough to pay off their loans," Billings said.

The association's annual report through December 31 listed a doubling of delinquent loans compared with 1982, and one pending foreclosure, a rare occurrence in the San Joaquin valley.

"Today, we have the highest number of delinquent loans in my 24 years in farm credit," Billings stated. "Those are farmers who cannot make their payments. In many of those cases they are going to have to liquidate a portion or all of their real estate in order to pay the bills."

The association's lowered loan activity reflects the troubled agricultural financial picture. Last year, the association approved 129 loans totaling nearly $22 million. That compares with 209 loans totaling $48.2 million in 1982 and 308 loans totaling $84.4 million in 1981. As of December 31, the association had pending loan applications totaling $1.2 million, a three-fold drop from 31 applications for $18.3 million under consideration at the end of 1981.

"When times are tough, we don't make very many loans," Billings said. "When farmers are making money they can afford to expand and buy land. We are going to go as far as we can with a borrower, but the last thing we want is to own the ranch."

Association president Glenn Wilkins reported that the Fresno Land Bank turned down more loans in the past year than in the last five years combined. "If a loan is granted to a farmer who lacks adequate cash flow, you're digging a hole for him," Wilkins stated.

This is not only an accurate picture of the state of agricultura in the nation's leading agricultural production area, but a summary of what is happening throughout the state.

After having enjoyed phenomenal growth in the 1970s, the California and United States processing tomato industry have become static in the 1980s, despite a continuing upward consumption trend. In California, we appear to be stuck at the 6 million ton figure, with national demand remaining at the 7 million ton level. However, from 1980 to 1982, the ratio of imports to consumption rose from 3.12 percent to 10.05 percent. (Chart 2).

California grower price per ton has also remained static during these years, in the mid-$50 range. (Chart 3). As the chief negotiator for raw product price, I am currently in the midst of negotiations for the 1984 crop. Our growers desperately need a price increase. In a recently completed study by agricultural economist Dr. Jack Hooper, even the 30 ton per acre Fresno County grower has cash costs of $52.60 per ton and total costs of $56.82. (Chart 4). Yet canners tell us that current market trends, a downward price pressure on remaining canner stocks from the 1983 crop and competition from imports in eastern U.S. markets account for a reduction in the number of tons required by them for 1984, as well as their inability to pay a price that will provide a reasonable return to the grower and allow him to service his debt.

The inability to increase our share of the tomato market does not stem from lack of capacity by processors, nor from lack of ability on the part of the grower. California growers have invested heavily in machines to harvest the crop, in innovative irrigation systems, in new varieties with better processing qualities and higher yields per acre. Given the opportunity, we have the growers, the equipment, the land and the know-how to double our present production. Present processing facilities could handle 8 million tons of tomatoes, yet our market remains at 6 million tons of processed tomatoes. This is particularly frustrating to our industry when it is realized that the increased consumption is going to foreign producers and processors.

According to the latest figures from the Bureau of Census, imports of tomato paste from all nations reached the equivalent of 2 million 6/10 cases between July 1, 1983 and February 1, 1984, an increase of 13 percent from the same period in 1982-83. Canned tomatoes in 24/303 size amounted to 2.4 million cases, an increase of 52 percent from the 1982/83 period. Basically, the U.S. processing tomato industry does not export outside Northern America. The imports are taking our domestic markets which have been carefully nurtured and expanded by U.S. producers and processors.

With this background, let us turn to the situation in Israel. Early in 1984, the California Committee on Imports commissioned Dr. Leon Garoyan, of the University of California, to do an on-site study of the Israeli processing tomato industry. I quote from the introduction to the report given us by Dr. Garoyan.

"It is a deceiving fact that Israel's tomato production for processing is small. For hidden by its small total production of 293,000 metric tons in 1983 are these considerations: 85 percent of its processed tomato products are marketed in the U.S.;

yields per acre are twice that of other Mediterranean producing countries; the industry has the potential within a short period of displacing one out of every six tons of tomatoes grown in California for processing; and the Israeli government in 1984 is seeking special trade privileges in the U.S. and E.E.C."

---"Grower incentive payments which have prevailed in previous years were abolished for the 1983 crop. In 1981, growers received $11 per metric ton from the government, and in 1982, this amounted to $3.78 per metric ton.

The explosive production growth of processing tomatoes in Israel along with the growth in exports from the country and imports by the United States over the past 5 years is documented in chart 4.

I would remind you that United States growers receive no subsidies of any kind, and tomatoes were not one of the 1983 Payment in Kind crops.

In commenting on production trends, Dr. Garoyan states: "In the period of four years, from 1979 to 1983, the production of tomatoes for processing increased from 166,000 metric tons to 293,000 metric tons, an increase of 76.5 percent. Meanwhile, the area harvested increased from 3,890 hectares (9,725 acres) in 1980 to 6,500 hectares (16,250 acres) in 1983, an increase of 67 percent.

---"Israel's 1982 production of 240,000 metric tons was 4.3 per of the total production of 5,613,000 metric tons from the Mediterranean region, and 1.8 percent of world supply. It is however, the fastest growing production area, about doubling its production between 1977 and 1982."

Dr. Garoyan has projected that "If a free trade area were to come to pass between the United States and Israel, the Israeli industry would expand from 330,000 metric tons of raw product to 450 to 500,000 metric tons in one year. It is very feasible for 750,000 metric tons to be produced in just a few years."

In March of this year, the Tomato Import Committee commissioned Dr. Kirby Moulton, also of the University of California, to assess the economic impact of increased processed tomato imports into the United States from Israel. Dr. Moulton estimated the impact for two different import levels and two different assumptions about the relationship between changes in imports and changes in domestic output, based on Dr. Garoyan's estimate that (1) the 1982 level of 240,000 metric tons of raw product could increase to 450-500,000 tons in one year; and (2) the Garoyan estimate that production levels could reach 750,000 metric tons in a few years, given the stimulus of the free trade zone agreement with the United States.

Each study assumes that 80 percent of the added production will be shipped to the United States because of the price inducements of eliminated U.S. tariffs.

At the 480,000 ton level, Dr. Moulton shows a loss per ton of raw product price equivalent of $3.99. At the 720,000 ton level, the loss per ton of raw product price equivalent rises to $8.02.

(Chart 5). At the California 1983 level of production of 5.9 million tons, total dollar loss to growers would equal $19.2 million at the $3.99 level, and rise to $47.3 million at the $8.02 level.

The impact of increased imports is profound, not only on growers of the raw product, but on workers, communities, suppliers and related groups. In his analysis of the economic impact, Dr. Moulton reports:

"Approximately 2.17 hours of labor were required to produce one ton of tomatoes for processing in California in 1982. Converted to cases of finished product, this means that a change of 1,000 cases in output of paste will change the use of farm labor by .386 full season (90 day equivalent) jobs; in sauce, the change is .196 full season jobs; and in peeled tomatoes the change is .086.

"Based on estimates provided by an industry source, the range of labor productivity for processing paste is 1.35 tons to 2.33 tons of paste produced per man-shift (8 hours). Using an average of 1.84 tons of paste per man-shift, a change of 1,000 cases in the output of paste will affect .129 full season jobs (90 days).

Based on an increase of 5.7 million cases (6/10 basis) of variou processed tomato products, Dr. Moulton gives the following losses:

Domestic processor revenues	$50	to $64 million
Personal income	$61	$77
Private sector sales	$51	$184
Industry jobs	72	262
Private sector jobs	543	1,975

The range of the impacts reflects different assumptions about the relationship between changes in imports and domestic production.

The California processing tomato industry is simply not in a position to remain in business under these circumstances. Growers are not in a position to continue to produce processing tomatoes for fewer contracted tons at reduced prices. Only their efficiency and an expanding market during the 1970s has kept them in business thus far. Processors are not in a position to compete with low labor cost, subsidized production from other nations.

Processed tomatoes are extremely price sensitive to small changes in total supply. Even a slight domestic overproduction results in an immediate downward pressure on f.o.b. prices. It is our belief that the Administration has given insufficient study to the economic impact of U.S. growers and producers of processed tomatoes in the discriminatory bilateral trade arrangements proposed by the U.S.-Israeli Free Trade area. For these reasons, we respectfully request that import sensitive crops, including processed tomatoes, be excluded from the proposed agreements. We also request that a full and complete study of the total complexity of such agreements on import sensitive agricultural crops be conducted.

D. L. Zollinger

David L. Zollinger, Chairman
National Committee, Growers and
Processors, Tomato Imports

Chart 1

	TOTAL PRODUCTION		TONS/ACRE	
	Fresno County	Statewide	Fresno County	Statewide
1983	1,757,000	5,971,273	29.6	25.9
1982	1,621,700	6,148,240	32.2	26.5
1981	1,047,100	4,903,200	28.7	24
1980	1,058,000	5,540,780	30.5	26.6
1979	1,188,000	6,350,000	28.6	25.4

Chart 2

CANNED TOMATOES: U.S. production, exports, imports and apparent consumpti

	Production	Exports	Imports	Apparent consumption	Ratio (percent) of imports to consumption
	-------------(thousands of pounds)---------------				
1978	1,181,784	28,217	74,165	1,227,732	6.04
1979	1,269,504	42,684	45,567	1,272,387	3.58
1980	1,274,304	34,951	39,881	1,279,234	3.12
1981	1,246,488	32,193	97,229	1,311,664	7.41
1982	1,514,136	19,978	167,018	1,661,176	10.05
1983	n.a.	13,991	186,709	n.a.	n.a.

Does not include carryover. Does not exclude government purchases.

Chart 3

YIELDS/PRICES AND RETURNS 1970-83
CALIFORNIA PROCESSING TOMATOES

Year	Acres	Yield Tons	Production Total Tons	Value Per/Ton	Deflated Revenue/Per Ton GNP Deflator (1972=100)
1970	141,300	23.8	3,362,950	25.20	27.58
1971	163,700	23.7	3,879,700	28.00	29.16
1972	178,900	25.3	4,526,150	28.00	28.00
1973	218,000	22.3	4,861,400	35.00	33.10
1974	249,900	23.4	5,847,650	56.80	49.36
1975	299,200	24.3	7,270,550	55.60	44.20
1976	233,800	21.7	5,066,450	47.40	35.82
1977	276,400	24.1	6,669,500	56.10	40.06
1978	231,900	22.8	5,289,650	53.80	35.77
1979	250,000	25.4	6,350,000	56.70	34.70
1980	208,300	26.6	5,540,780	47.25	26.48
1981	206,600	24.0	4,903,200	50.00	25.62
1982	232,000	26.5	6,148,240	55.60	26.88
est.1983	230,000	25.9	5,971,273	53.50	24.81

Sources: California Crop and Livestock Reporting Service
Various County Agricultural Reports
Deflator Council of Economic Indicators-1984

Chart 4

TABLE 1.--ISRAEL: TOMATO PRODUCTS AVAILABILITY 1/

Commodity	1979	1980	1981	1982	1983 2/	Avg. 1979-82
	(1,000 Metric Tons)					
Canned Tomatoes	26.5	20.6	42.4	53.8	64.0	35.8
Paste	23.8	23.7	40.4	46.4	59.7	48.5
Puree	7.5	4.6	6.2	6.9	7.3	6.3
Juice	17.5	45.5	16.9	32.0	34.0	28.0
Ketchup	14.2	15.2	12.6	25.8	28.0	17.0
Sauce	4.4	4.8	4.5	5.2	5.3	4.7

1/ Carry-in plus production. 2/ Preliminary.
SOURCE: Attache Reports.

TABLE 2.--ISRAEL: TOMATO PRODUCTS EXPORTS

Commodity	1979	1980	1981	1982	1983	Avg. 1979/82
	(1,000 Metric Tons)					
Tomato Puree and Concentrate	9.0 (17)	4.7 (1)	11.7 (65)	15.9 (85)	20.0	10.3
Tomatoes, Crushed or Peeled	10.2 (14)	7.0 (36)	15.4 (57)	19.2 (78)	20.3	13.0
Tomato Juice	1.6 (0)	15.8 (0)	1.9 (12)	1.4 (1)	NA	6.4

Note: Percentage of reported exports to the United States in parentheses.
SOURCE: Israeli Central Bureau of Statistics.

TABLE 3.--U.S. IMPORTS OF TOMATO PRODUCTS FROM ISRAEL

Commodity	1979	1980	1981	1982	1983 1/	Avg. 1979-82
	(1,000 Metric Tons)					
Paste	1.4 (7)	0.1 (1)	5.0 (17)	11.4 (13)	6.7 (10)	4.5
Sauce	1.1 (89)	0.6 (79)	3.6 (88)	8.6 (87)	6.8 (69)	3.5
Canned, NEC	2.5 (12)	1.9 (10)	6.5 (15)	11.2 (15)	19.5 (27)	5.5

1/ Through November only.
Note: Percentage of total U.S. imports in parentheses.
SOURCE: U.S. Bureau of Census.

January 1984 Horticultural and Tropical Products Division, FAS/USDA

Chart 5

IMPACTS ON PRICES AND PRODUCTION

RESULTS FOR SCENARIO ONE (Israel production of 480,000 tonnes)

Case 1: The Price Impact of Increased Imports

ACTIVITY	PASTE	SAUCE	OTHER	TOTAL
Raw product equiv. of domestic supply (1,000 tons)	2,532	915	2,830	6,277
Base Year Supply, 1982, 1,000 6/10 cases.				
Domestic	19,812	14,121	47,932	81,865
Imports	3,568	622	3,981	8,171
Total	23,380	14,743	51,913	90,036
Assumed increase in imports from Israel	878	715	1,080	2,673
Percentage change in base year supply	3.76	4.85	2.08	2.97
Price flexibility coefficient	.4131	.4131	1.0594	
Calculated price change (percent)	-1.55	-2.00	-2.20	
Estimated domestic price, $ per case	21.00	14.40	13.80	
Calculated loss in sales revenue ($1000) (domestic supply times price loss per case)	6,449	4,067	14,552	25,068
Loss as percent of total domestic revenue	1.55	2.00	2.20	1.96
Loss per ton of raw product equivalent ($)	2.54	4.44	5.14	3.99

Chart 5

RESULTS FOR SCENARIO II (ISRAEL PRODUCES 720,000 TONNES)

Case 1. The Price Impact of Increased Imports

NOTE: The basic data concerning domestic supply and prices remain unchanged from the previous table. The only changes are in the level of imports from Israel and their total impact on domestic f.o.b. prices. The following table provides data only where changes occur.

ACTIVITY	PASTE	SAUCE	OTHER	TOTAL
Increase in imports from Israel in 1000 6/10 cases	1,759	1,430	2,164	5,353
Percent change in base year supply due to increased imports from Israel	7.52	9.70	4.17	5.95
Estimated percent change in price	-3.11	-4.01	-4.42	
Domestic revenue loss ($1,000)	12,939	8,154	29,237	50,330
Loss as percent of total domestic revenue	3.11	4.01	4.42	3.93
Loss per ton of raw product equivalent ($)	5.11	8.91	10.33	8.02

SUMMARY OF PRINCIPAL POINTS

Dave Zollinger Statement on Administration Proposal to Establish a Free Trade Area with Israel

1. California agriculture is in a serious financial position, with farm marketings in 1983 declining 4 percent from $14.3 billion to $13.7 billion, as compared to 1982.
2. Fresno County, the nation's leading agricultural production area, is experiencing the highest number of agricultural bankruptcies of the past 50 years and a doubling of delinquent loans from 1982 to 1983.
3. Despite increased consumption of processed tomatoes in the United States, demand from U.S. producers remains at the 7 million ton level, with California's share at 6 million tons.
4. The ratio of imports to consumption has risen from 3.12 percent to 10.05 percent since 1980.
5. California's grower prices per ton have remained in the mid-$50 per ton range since 1980, which in deflated dollars equates to the mid-$20 per ton range.
6. California growers have the equipment and land to grow 12 million tons annually, processors have the capacity to process 8 million tons, but growth of the U.S. industry to this level is circumvented by the influx of imports.
7. Israel currently exports 85 percent of its processed tomatoes to the United States.
8. Israel, which produced 293,000 metric tons in 1983, is the fastest growing production area in the world.
9. If a free trade area is approved, on-site studies by Drs. Leon Garoyan and Kirby Moulton, project that Israel would rapidly expand

production to 500,000 metric tons, and in a very few years to 750,000 metric tons, displacing one of every six tons in California.

10. Assuming an 80 percent export of Israeli tomato products to the United States, at the 480,000 ton level, a loss per ton of raw product price equivalent to U.S. growers amount to $3.99. At the 720,000 ton level, the loss per ton of raw product price equivalent rises to $8.12, according to Dr. Moulton.
11. Based on an increase of 5.7 million cases (6/10 basis), of various Israeli tomato products, losses in processor revenues would amount to $50-65 million; losses in personal income of $61-77 million; private sector sales of $51-184 million; in industry jobs of 72 to 262 persons, and in private sector jobs of 543-1,975 persons.
12. The California processing tomato industry is not in a position to remain in business under these circumstances.
13. The National Committee of Growers and Processors, Tomato Imports, request that import sensitive crops, including processed tomatoes, be excluded from the proposed agreements.
14. The National Committee of Growers and Processors, Tomato Imports, also request a full and complete study of the total complexity of such agreements on import sensitive agricultural crops be conducted.

April 4,1984

INDIANA FOOD PROCESSORS AND GROWERS
REQUEST CONGRESS EXCLUDE TOMATOES AND TOMATO PRODUCTS
FROM THE PROPOSED UNITED STATES-ISRAEL FREE TRADE AREA

THE ISSUE:

The Regan Administration is proposing a Free Trade Area Agreement between the U.S. and Israel to eliminate duties and non-tariff barriers on substantially all trade between the two countries. The proposal will require legislation.

Indiana tomato growers and processors will suffer irreparable damage should tomato products be allowed duty-free entry from Israel and other developing countries.

POSITION:

The Indiana Food Processors Association, the National Committee of Growers and Processors, Tomato Imports, The American Farm Bureau and many other associations urgently requests Congress to exclude tomato products from the proposed Free Trade Area Agreement by statute.

REASONS FOR POSTION:

Potential elimination of Indiana tomato growing and processing industry including 1,100 permanent jobs and over 5,000 seasonal jobs. We believe in fair trade. Israel has subsidized tomotoes, pays less than U.S. wages, and capitalized on free U.S. industry technology.

See attached Summary Sheet and Testimony before USITC.

CURRENT STATUS:

Hearings are being held by the United State International Trade Commission on April 10, 1984 and by the Trade Policy Staff Committee on April 12, 1984. Although the Administration has not yet introduced legislation, Congressmen Thomas and Matsui have introduced H.R.3581 to amend section 503 of the Trade Act of 1974. The Indiana Food Processors Association supports H.R. 3581.

ADDITIONAL INFORMATION, CONTACT:

Mr. Warren Spangle, Executive Vice-President, Indiana Food Processors Association, N.Meridian St., Indianapolis, Indiana (317)-924-5106

Mr. Peter W. Mauger, President and Chief Executive Officer, Naas Foods, Inc., Box 1029, Portland, In.47371 (219)-726-8155

Mr. David L. Zollinger, Chairman, National Committee of Growers & Processors, Tomato Imports, P.O. Box 7398, Stockton, CA 95207 (209)-478-1761

Mr. Larry Tabor, President, California League of Food Processors, 1007 "L" Street, Sacramento, CA.95814 (916)-444-9260

April 4, 1984

SUMMARY SHEET OF FACTS SUPPORTING POSITION WHY TOMATOES AND TOMATO PRODUCTS SHOULD BE EXCLUDED FROM THE U.S.-ISRAEL FREE TRADE AREA

1. Current tariffs have not been a barrier to increased imports from Israel.
    a. Israel's canned tomato exports to U.S. jumped from 10% of total imports in 1978 to 26% in 1982
    b. Israel's tomato paste exports to U.S. in same period jumped from 4.7% to 10.4%.
    c. Israel was number one supplier of tomato sauce to U.S. in 1983 accounting for 70% of the imports.
2. Israel exports 85% of its production to the U.S.
3. Total imports of canned tomatoes accounted for 15% of U.S. consumption in 1982.
4. Total imports of puree, paste, and sauce accounted for 24% of U.S. consumption in 1982.
5. Israel's tomato production in 1982 equaled 172% of Indiana's production.
6. Israel's capacity allows production to be 360% of Indiana's production.
7. Indiana growers and processors hit harder by Israel's exports to U.S. because of product mix.
8. Establishment of an Israel Free Trade Area would impact adversely the many small cities and rural communities in which Indiana processing plants are located.
9. Indiana tomato processing industry is significant to Indiana's economy.
    a. Employs over 1,100 part and full-time employees with payroll in excess of $16,000,000.
    b. Employs over 5,000 seasonal persons.
    c. Tomato product sales in excess of $64,000,000 -mostly all out of state
    d. Farm value of raw produce over $19,000,000
10. Cannot afford to lose more jobs. Jay County unemployment stood at 17.9% in January.

able to sell them. This would reduce grain subsidy payments to Indiana farmers

12. U.S. tomato growers and processors receive no subsidies.

13. Subsidized tomato products from other countries such as Italy and Greece could be "back doored" into the U.S. thus compounding the problem.

14. We believe in fair trade. Israel has given direct subsidies to tomato growers and processors in 1981 and 1982. Israel's industry does not pay U.S. wages. Israel has capitalized on U.S. developed varieties, harvesting practices, and technology all of which has been given freely.

STATEMENT TO THE
UNITED STATES INTERNATIONAL TRADE COMMISSION
ON THE ISRAEL FREE TRADE AREA

(Cause No.332-180)

April 10,1984

and to the

TRADE POLICY STAFF COMMITTEE

April 12,1984

PROBABLE ECONOMIC EFFECT OF DUTY-FREE TOMATO PRODUCT IMPORTS

by

Peter W. Mauger
President & Chief Executive Officer
Naas Foods, Inc.
Portland, Indiana

My name is Peter W. Mauger. I am president and chief executive officer of Naas Foods, Inc. located in Portland, Indiana. I am appearing before you on behalf of the 235 employees of my company which operates two tomato processing plants in the state of Indiana and one in California. I am also speaking on behalf of the fourteen member companies of the Indiana Food Processors Association. I have also been asked to appear before you on behalf of mid-west growers and processors.

The Indiana Food Processors Association represents 100 percent of the tomato processors in the state. The fourteen member companies in turn contract produce with several hundred growers throughout Indiana.

We are deeply concerned with the United States-Israel Free Trade Area proposal and its potential adverse effect on the Indiana and mid-west tomato processing industry. The basis of our concern is twofold. First, according to the "Summary of Trade and Tariff Information" for February 1984, which is published by the USITC, total imports in 1982 of canned tomatoes and tomato products was nearly two and a half times the total production of Indiana for 1982 and equalled 70 percent of the combined Indiana and Ohio production. Putting it in another perspective, total imported canned tomatoes accounted for 15 percent of total United States consumption in 1982; and total imported tomatoes, puree, paste and sauce accounted for 24 percent of total United States consumption in 1982. Furthermore, according to the same USITC report, total imports of canned tomatoes and tomato products increased significantly between 1978 and 1982 both in absolute terms and as a percentage of United States consumption. With regard to United States exports they are practically nil representing approximately two percent of United States consumption and have fallen since 1978.

The second reason for our concern is that present duty rates apparently have not served as an effective barrier to imports from Israel. For example, from 1978 to 1983 Israel's canned tomato exports to the United States increased from 10% of total imports to 26% of total imports. Tomato paste in the same period increased from 4.7% to 10.4%. In addition, in 1983 Israel was the number one supplier of tomato sauce to the United States accounting for nearly 70% of the total imports of that item. It is important to note that according to a study by Dr. Leon Garoyan of the University of California, Davis, 85% of Israel's production is marketed in the United States.

I would now like to focus my remarks on the present and potential adverse economic impact that Israel's tomato exports to the United States has and could have upon mid-west growers and processors. To illustrate the damaging consequences of further imports from Israel, I refer you to Table I.

Table 1. Tomato Porduction Comparison:

(Actual Tons)

	1978	1982
Indiana	200,000	139,000
Ohio	398,000	368,000
Israel	161,000*	240,000*

* Equals Metric Tons

Source: Foreign Agricultural Circular, Horticultural Products, Feb.1983.

Foreign Agricultural Service, USDA, p.10.

U.S.D.A. Statistical Reporting Service

One conclusion from Table I is that Israel's tomato production in 1982 was 172% of Indiana's production and was nearly 65% of Ohio's production. According to a recent on-site study by Dr. Garoyan, Israel is expected to produce 400,000 metric tons in 1984 and has the potential to increase that to 500,000 metric tons with minor additions of equipment. This would be more than double what Israel produced in 1982 and 360% more than what Indiana produced in 1982. Therefore, if Israel's tomato products are permitted to enter the United States duty-free, Israel's processors would be granted an excellent incentive to expand its capacity. This potential expansion could lead to the destruction of the mid-west tomato growing and processing industry.

Reports from buyers indicate that Israel is exporting a high percentage of its tomato products as canned tomatoes in the #10 (institutional) size. The significance of this fact is that it aggravates the mid-west tomato industry's problem. The mid-west industry is composed predominately by many small and independent companies which specialize in producing canned tomatoes in the institutional size. Therefore, additional imports from Israel would have a disproportionately adverse effect upon mid-west growers and processors.

Another compelling reason that tomato products should be excluded from the Israel Free Trade Area is the adverse impact it would cause upon an already weakened economy in Indiana and the mid-west. The tomato processing industry is significant to the economy of Indiana and the mid-west. The farm value of mid-west tomatoes in 1982 was $64,000,000. Using the conservative multiplier effect of four, that accounted for over one-quarter billion dollars in mid-west gross product.

In a survey conducted by the Indiana Food Processors Association of it members, sales of Indiana processed tomatoes are in excess of 76 million dollars. Indiana Processors purchase over 19 million dollars of tomatoes, provide over 1,100 part and full-time jobs with a payroll in excess of 16 million dollars. In addition, according to the Indiana Employment Security Division over 5,000 seasonal field and in-plant jobs are created by the Indiana tomato processing industry.

The mid-west is suffering some of the worst unemployment in the nation. In my own county the unemployment rate for January was 17.9%. A major employer in our community has announced effective April 1,1984 the permanent closing of 50% of its plant. This is expected to increase the unemployment rate to nearly 20% for the month of April. Jay County, Indiana is typical of many counties in the state of Indiana and is not participating in the economic recovery to the extent that many other regions are. My company along with the other tomato processors in Indiana are located in small cities and rural communities which are fighting for survival.

The farming community in Indiana has been hurt by low grain prices the last few years. It has taken a very expensive "PIK" program to help them. Many of these farmers count on raising tomatoes to secure a positive cash flow, and without tomatoes, would be raising more federally subsidized wheat or corn. They would like to expand their tomato acreage if our plants could sell the output. And, I should hasten to add, tomato growers and processors do not receive subsidies.

In view of the above we think it would be inconceiveable for the Administration or the Congress to institute measures that would compound the problems of an already depressed economy in Indiana and in the mid-west.

I should like to make one last point. If duty-free treatment is extended to agricultural imports from Israel, there is no mechanism to prevent that country from "back-dooring" subsidized tomato products from other countries such as Greece and Italy. This could very well have the effect of opening the flood gates and drown the domestic tomato industry.

We can conclude by saying that total imports of tomato products have increased significantly in the past five years. Israel's share of those imports has grown dramatically. Additional imports will be devasting to the Indiana and mid-west tomato industry. We believe in fair trade and are not afraid to compete on an equal basis. However, as others have shown this morning, Israel has subsidized their tomato industry, pays its workers significantly less than comparable U.S. industry workers, and has capitalized on U.S. varieties and technology which has been given to them freely. Therefore, the Indiana Food Processors Association requests that the current nominal M F N rates of duty be maintained, and that the three tomato products under consideration be excluded from the Free Trade Area Agreement.

Thank you for permitting me to present our views and for your consideration.

[Portions of this presentation have been omitted because of duplication.]

Mr. **Downey**. Thank you, Mr. Zollinger.

Let me ask you briefly if the other members of the group want to just make very, very brief additional comments—very brief.

Mr. **Furman**. Yes.

Mr. **Downey**. Would you state your name, please.

Mr. **Furman**. My name is Foster Furman from Northumberland, PA, chairman of the board of Furman Foods.

Our situation is, a small family-owned organization on the east coast is vastly different than multinational corporations on the west coast. Therefore, I feel I have a case to state just a few things.

Mr. **Downey**. Certainly.

Mr. **Furman**. Eighty percent of the tomatoes that are imported from Israel are of the products of which 75 percent of our total production goes into. Therefore, we are affected very, very heavily. We have already had to cut acreage 14 percent, and that has been a loss of 485 jobs. In the next few years if it just continues to escalate to where it is estimated, it will be 2,700 jobs.

Now, our market is the 400-mile corridor on the east coast. That is where Israel has the best access. Eighty percent of the distributors that we sell to are buying imported tomatoes, and most all of them buy from Israel. So we are very, very heavily impacted on the east coast. That affects us, we think, a little harder.

Another point: The small processor family owned who depends on tomatoes for his livelihood, compared to the big companies who have 20 or 30 different items other than tomatoes, if we lost a profitable tomato industry we are down the drain; we are done. There is no alternate.

Now, as to saying that if you give Israel free import duty in the United States, the other countries will not ship in there and we will have their product coming in, and legally that is not supposed to happen. But if U.S. Steel has to wait 5 years to get an answer, what happens to a little concern who is losing $3 a case for 5 years? We are out of business about the third year.

There are thousands of farmers, family-owned farms in Pennsylvania, Ohio, the east coast, that are different than California. California has the big farms. But they are family-owned farms, 10 or 15 acres of tomatoes. There are thousands of those. Again, you are taking away their lifeblood.

I just wanted to point out that—and I don't know whether this is a fair statement—but I have understood that if we give Israel import duty-free access, we are actually discriminating against Israel, Greece, Mexico, and other countries.

I thank you very much for the time.

[Mr. Furman's prepared statement follows:]

STATEMENT OF FOSTER FURMAN, CHAIRMAN OF THE BOARD, FURMAN FOODS, INC., NORTHUMBERLAND, PA

We appreciate the opportunity to appear before the committee on Ways and Means of the House of Representatives.

We are thankful that we live in a country where we are free to express our opinions without fear of reprisal.

May God grant that it will always be so.

First, I would like to state that Furman Foods has been very supportive of Israel in many ways. We support Israel's right to exist as a nation and defend herself. It is difficult for us to oppose Israel on this issue because of our admiration of Israel; we strongly believe that to eliminate import duties on farm products from Israel would be to the detriment of both countries. A weak and ineffectual United States would not be an effective ally of Israel.

Furman Foods, Inc. is a small famiy-owned business which operates a canning plant in Central Pennsylvania. During the months of June, July, August, and September we can peas, snap beans and tomatoes, all of which are delivered to our processing plant by farmers in the area. During the other eight months of the year, we utilize our plant capacity in the canning of dry beans.

The principal business of Furman Foods, Inc. is canned tomatoes, which accounts for 75% of our seasonal pack of canned vegetables and 35% of our total year-round production. We do not believe we could continue to stay in business if we could not operate at a profit on canned tomatoes -- the backbone of our business.

Even with present duties, we are being hurt by imports of canned tomatoes from Italy, Spain, and Israel and on tomato paste from Mexico and Israel. On crushed tomatoes and pizza sauce, our main competition is Israel. They are delivering into New York City below our actual cost. This has seriously hurt us as well as many farmers. This is only the tip of the iceberg.

Because of imports, our sales are down so much that we project not being able to sell all our 1983 pack of pizza sauce and crushed tomatoes before the 1984 packing season starts. The only thing left for us to do was to reduce our acreage on tomatoes to 14% below our initial projection from 3200 acres to 2800 acres. Our records are available to document this is a fact. This represents 400 acres and affects about 50 small growers.

Pizza sauce and crushed tomatoes represent 75% of our tomato business. Since these are the two items that Israel exports the most of to the United States, Israel has caused us the most problems.

During the years of 1981, 1982, and 1983, Furman Foods, Inc. planned an expansion project of $9,000,000.00.

Sales projected our needs on January 19, 1982 for tomato products by the year 1991 would be 125,202 tons which would require 6,260 acres to produce. On the basis of that, we have spent $3,115,500.00 for special tomato equipment that cannot be used for anything else. Also, we are building $3,251,350.00 worth of buildings that will not be needed if tomato products cannot be expanded. To carry this overhead on these large expenditures, we need to get production up to 100,000 tons in 5 years. This would require 5,000 acres to produce the require tonage.

If import duties are removed on tomatoes from Israel instead of expanding tomato acreage in the United States, we will have to reduce acreage further. It is estimated that 2,500 acres of tomatoes is all that we will need. If you subtract that from the 6,260 acres we expected to contract, that is a potential loss to the farmers' market of 3,760 acres. We do not, at this point, see how we could pay the money back we have borrowed through government agencies for our expansion project. Should this be the case, the government might have a canning plant on their hands that they will not be able to sell because of depressed markets caused by imports.

Being 73 years of age, I have devoted my entire life to the Company and would hate to see it go down the drain not only for myself but for other dedicated family members as well. Also, some of the farmers whose main business is growing tomatoes for Furman Foods, Inc. stand to suffer a great loss.

Israel is delivering #10 crushed tomatoes to our customers in New York City at $12.60 as of December, 1983. Our actual cost on #10 crushed tomatoes delivered to New York is: $12.679 per cs.

Israel price on #10 crushed tomatoes delivered to New York is: 12.600 per cs.

BELOW OUR ACTUAL COST: .079 per cs.

Import duty .147% on cost FOB Israel: 9.60 X .147 = $1.41	$9.60 per cs.
Israel price delivered to New York pier:	$12.60 per cs.
Subtract duty:	1.41 per cs.
Israel price delivered after import duty is removed:	$11.19 per cs.
Our cost December '83 delivered to New York:	$12.679* per cs.
Israel price delivered after import duty was removed could be:	$11.19 per cs.
Israel delivered price below our cost or net loss to us of:	$ 1.489 per cs.

In addition to us, it affects 261 farmers who are growing tomatoes for us in 1984 from the following 14 counties in Pennsylvania:

- Clinton
- Dauphin
- Huntingdon
- Juniata
- Lancaster
- Lehigh
- Luzerne
- Lycoming
- Montour
- Northumberland
- Schuylkill
- Snyder
- Union
- York

For us to have cost as low as Israel delivered into New York (if the import duty is removed), we could only pay farmers $55.12 per ton or $27.03 less than we are paying them. That is $12.00 per ton below their cost to grow tomatoes.

According to the Department of Commerce, the United Stated imported from Israel the following in tomato paste, tomato sauce, and prepared tomato sauce in 1981: 33,318,600 lbs.

Import of the same products in 1983: 81,947,796 lbs.

An increase in two years of 246%.

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* Does not include one penny of profit.

Also according to the U.S. Department of Commerce, figures show totals of all imports of processed tomatoes for the three years of 1978, 1979, and 1980 was: 289,682,366 lbs.

For the three years of 1981, 1982, and 1983 was: 929,494,846 lbs.

OR, an increase of 320% during that period.

Imports from Israel during that same period as a percent of total imports rose from 9.6% to 19.7%. Exhibit #1 shows details on other tomato products.

With that kind of increase, it is hard to understand why they need to have import duties removed to help them.

According to Dr. Lee Garayan, University of California economist, "If the U.S. Government grants a trade-free pact, the effect will be a subsidy of Israel industry by the U.S. taxpayer". If free-trade status is given Israel, it is believed according to the 246% increase in 2 years, they could triple production in a few years. All of this increase would be at the expense of the U.S. farmers and processors.

Forty-five percent (45%) of our tomatoes are grown by 18 growers with investments in special tomato equipment that cannot be used for any other product except tomatoes.

Value at today's market (not new equipment):	$2,758,650.00**
Value of special tomato machinery for the state of Pennsylvania estimate:	4,291,230.00**

There is no other profitable crop they can shift to since corn, wheat, soy beans, and dairy products are in surplus.

California today produces an average of 6 million tons a year out of 7 million ton U.S. consumption. Imports are constricting the normal growth

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** Does not include tractors and other tillage machinery that can be used for other crops.

of tomato processing industry. California could process 8 million tons per year.

In 1982, Furman Foods, Inc. embarked on a large expansion project with the main emphasis on tomato products with the encouragement of our Federal and State governments to increase jobs. By way of industrial development financing, Federal U.D.A.G. grant, we were successful in putting together our $9 million expansion project. It does not seem logical that the same group of people who have encouraged us to expand and improve the economy of our area would jeopardize the future of our business by establishing duty-free imports of canned tomatoes and tomato products from any country. Action like this would make it impossible (I repeat impossible) for us to repay our obligations. We must ernestly recommend that canned tomatoes and other processed tomato products be excluded from the free-trade area agreements.

Being a small family-owned business, Furman Foods, Inc. contracted with a total of 198 farmers of who 183 grew tomatoes for us in 1983. We contract in advance of the season, thereby, guaranteeing the farmer of a firm price per ton for their products even before the crop is grown and guaranteeing us an adequate supply of fresh vegetables. Many of these farmers have grown crops for us for 20 years or more. Our economic well-being as canners, very directly affects their economic well-being as farmers. The total paid by our Comapny to our 183 growers in 1983 was $3,321,692.00.

Furman Foods, Inc. employs 165 people on a year-round basis and an additional 175 during the canning season. Our total payroll for 340 people during 1983 was $3,810,733.00

We believe there are approximately 110 tomato canners in the United States, many of them small businesses like ourselves, who also rely on canned tomatoes as the principal item in their product line. Although we cannot speak for any of them, we know with certainty that duty-free imports of canned tomatoes and tomato concentrates from Israel would be disastrous for our business; also there are thousands of farmers whose main income is from growing tomatoes for processing.

An exclusion from the United States-Israel free-trade area for processed tomatoes and tomato products is vital to the future of the United States food processing industry as well as farmers and the allied industries that service the processing industry. The competitive vitality of our tomato processing industry and equity within our own markets must be maintained. Tomatoes, Pennsylvania's largest processing commodity, must not be allowed to suffer the fate of other canned commodities like mushrooms. The following facts show what happened to the mushroom industry.

United Stated Department of Commerce show that for:
1982 lbs. of mushrooms imported into U.S. was: 47,551,622 lbs.
1983 lbs. of mushrooms imported into U.S. was: 108,325,943 lbs.
This amounts to 55% of all the mushrooms consumed in 1983.

In the last 10 years this has put over half of the mushroom growers (farmers) out of business. Also, in the same period, over half the mushroom packers have gone out of business. A number of these growers and processors went bankrupt.

If import duties from any country are removed on tomatoes, olives, citrus, or dairy products, the same thing can happen to American farmers as happened to mushroom growers.

If acreage from tomatoes is shifted to grain or cotton, which are already in surplus, what will happen to grain farmers?

The dairy industry is already in trouble. Dairy cattle consume grain. Any reduction in dairy cattle will hurt grain farmers.

Thank you for the opportunity to testify.

Sincerely,

Foster Furman
F. Foster Furman
Chairman of the Board
FURMAN FOODS INC.

Attachment: Exhibit 1

EXHIBIT 1

Canned Tomatoes

	Total Imports (pounds)	U.S. Imports from Israel (pounds)	Israel as Percent of the U.S. total
1978	74,164,976	7,451,389	10.0
1979	45,566,276	5,497,885	12.1
1980	39,880,425	4,148,889	10.4
1981	97,227,954	14,355,621	14.8
1982	167,017,976	24,713,804	14.8
1983	186,708,619	48,772,442	26.1

Israel ranked as third largest foreign supplier of canned tomatoes to the United States in 1983, after Italy and Spain. U.S. imports of canned tomatoes from Israel had a Customs value in 1983 of $11,139,502.

Tomato Paste

	Total U.S. Imports (pounds)	U.S. Imports from Israel (pounds)	Israel as Percent of the U.S.Total
1978	50,990,645	239,030	4.7
1979	42,054,052	298,998	7.1
1980	25,465,289	314,834	1.2
1981	65,202,175	10,954,188	16.8
1982	198,029,353	25,048,974	12.6
1983	160,742,004	16,648,729	10.4

Israel ranked as fifth largest foreign supplier of tomato paste to the United States in 1983. U.S. imports of tomato paste from Israel in 1983 had a Customs value of $3,906,710.

Tomato Sauce

	Total U.S. Imports (pounds)	U.S. Imports from Israel (pounds)	Israel as Percent of the Total
1978	7,116,183	6,345,237	89.2
1979	2,793,422	2,474,353	88.6
1980	1,651,098	1,299,742	78.7
1981	9,116,339	8,008,791	87.9
1982	21,824,299	18,954,172	86.9
1983	23,626,127	16,476,625	69.7

Israel again was number one foreign supplier of tomato sauce to the United States in 1983. U.S. imports of tomato sauce from Israel had a Customs value of $11,139,052.

U.S. imports of canned tomatoes and tomato concentrates from Israel in 1983 totaled more than $20.6 million.

The current U.S. rates of duty on canned tomatoes (14.7 percent) and on tomato paste and sauce (13.6 percent) are not an impediment to U.S. imports of these products from Israel.

Furman's
SUPERIOR BRAND
Quality Canned Vegetables

FURMAN FOODS, INC.
R. D. #2 NORTHUMBERLAND, PA. 17857
PHONE 717 - 473-2516
UPC Manufacturer's No. 41180

May 21, 1984

STATEMENT TO THE SUBCOMMITTEE ON TRADE #39
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515

SUBMITTED BY FOSTER FURMAN
CHAIRMAN OF THE BOARD
FURMAN FOODS, INC.
NORTHUMBERLAND, PA 17857

EXHIBIT #1A

The attached letter from Ira E. Robinson to Senator Daniel Moynihan reflects the opinion of every wholesaler and broker that I have spoken with who are of Israeli decent. However, the other people I have talked to have said they did not wish to have their names mentioned although they verbally expressed the same feelings and thoughts Mr. Robinson's letter expresses.

EXHIBIT #2

The tables of the United States Internal Trade Commission, page 19, Table 8, shows that imports as percent of consumption in 1980 was 3%. In 1981, it was 8% and in 1982, 15%. At that rate of growth, it would only be a few years until the imports would account for over 50% of the consumption of the tomato products in the United States. That will have replaced 3,500,000 tons of tomatoes and of course, that means thousands and thousands of farmers will be left without a profitable crop to grow. They will have millions of dollars tied up in tomato equipment that cannot be used for anything else. Table 8 is attached.

F. Foster Furman
Chairman of the Board

EXHIBIT #1A

IRA E. ROBINSON & CO., INC.

2322 GRAND AVENUE, BALDWIN, N. Y. 11510 — 516-378 2727 — 212-895-3793

February 8, 1984

Senator Daniel Moynihan
733 Third Avenue
New York, N.Y. 10017

Dear Senator Moynihan:

As a food broker I have actively supported the sale of imported Israeli products.

Over the years this activity has become distilled down to sales when all things are equal and my personal contributions to UJA and purchases of Israel bonds.

Now I and people I represent are threatened by Israeli tomatoes and tomato products. Even with the current duty 14.7% and 13.6% respectively their products are being delivered to customers at prices with which the firms we represent cannot compete.

There is an attempt at the present time to remove even these modest duties.

I respectfully request your support in turning back this request. I share your feelings for a free, strong, independent Israel. I believe that this strength can and will be maintained without its accruing to the detriment of American food processing companies, their employees and their families. Once again, Senator, your assistance in their regard will be sincerely appreciated.

In addition we are also facing tomato imports from many other countries e.g.: Spain, Portugal, Italy. Any suggestions regarding how we may maintain our domestic industry would be sincerely appreciated.

Very truly yours,

Ira Robinson

Ira E. Robinson

IER: ae

Table 8.--Tomatoes, processed: 1/ U.S. production, exports of domestic merchandise, imports for consumption, and apparent consumption, 1978-82

(Quantity in thousands of pounds; value in thousands of dollars; unit value in cents per pound)

Year	Production 2/	Exports	Imports	Apparent consumption	Ratio (percent) of imports to consumption
			Quantity		
1978	2,192,784	64,824	132,272	2,260,232	6
1979	2,516,904	90,291	90,414	2,517,027	4
1980	2,221,824	70,449	66,997	2,218,372	3
1981	1,928,928	67,848	171,546	2,032,626	8
1982	2,236,896	50,150	386,872	2,573,618	15
			Value		
1978	3/	20,212	28,979	-	-
1979	3/	29,300	21,810	-	-
1980	3/	21,208	17,328	-	-
1981	3/	23,372	43,867	-	-
1982	3/	19,654	112,879	-	-
			Unit value		
1978	3/	31	22	-	-
1979	3/	32	24	-	-
1980	3/	30	26	-	-
1981	3/	34	26	-	-
1982	3/	39	29	-	-

1/ Includes puree, paste, sauce, and other canned tomatoes.
2/ Partly estimated by the staff of the U.S. International Trade Commission.
3/ Not available.

Source: Production, compiled from statistics of the National Food Processors Association, except as noted; exports and imports, compiled from official statistics of the U.S. Department of Commerce.

-June 6, 1984

Ammendement to: Statement of the Subcommittee on Trade #39
Committee of Ways & Means.
U.S. House of Representatives
1102 Longworth House Office Bldg.
Washington, D.C. 20515

Submitted by: Foster Furman, Chairman of the Board
Furman Foods, Inc., Northumberland, PA 17857

Five main points that I think you can condiser is:

1. By giving Israel special privileges as far as import duties of tomatoes and peppers is concerned, YOU ARE GREATLY DISCRIMINATING AGAINST OTHER COUNTRIES such as Italy, Greece, Spain, Mexico, etc.

2. The misconception that Israel is so small that she cannot hurt us is entirely unfounded.

I quote Dr. Lee Garoyan of the University of California, " Tomato acreage in Israel in 1980 was 9,725 acres. In 1983, it was 16,250 acres." "If a free trade area were to come to pass between the United States and Israel, Israeli industry would expand from 330,000 metric tons of raw product to 450,000 to 500,000 metric tons in one year. It is very feasible for 750,000 metric tons to be produced in just a few years." Based on average yields in Pennsylvania of 17 ton per acres, that would reduce the acreage in the United States about 44,117 acres." Today Pennsylvania grows about 6000 acres.

3. We need the same exclusion on peppers.

4. Imports of tomatoes and tomato products as well as peppers have reduced our employment

**Needs in 1984 486 people

Because of our expansion just being completed the effects

**In 1985, 1986, 1987 etc. is 2729 jobs per year

5. If tomatoes from Israel come into the United States duty free, then many OF THESE OTHER COUNTRIES WILL SHIP PRODUCT TO ISRAEL and it will come into the United States DUTY FREE after having been reshipped from Israel.

There are suppose to be laws to prevent them from doing this, but frankly they are almost a joke because it takes five years to get any action and by the time the FARMERS WHO GROW TOMATOES for us including ourselves, may be out of business.

**Includes harvesting labor of farmers

Mr. **Downey**. Thank you, Mr. Furman.

Mr. **Henriques**. My name is Don Henriques, a controller for Sun Garden Packing Co., and we are in the same category as my colleague, Foster Furman.

I just would like to address myself to two statements that were made today. We talked about people that would be hurt by this legislation, but they were not defined. I would like to define these people.

These are minority people that have limited job opportunities outside the canning industry. That is a key issue.

The other one that I would like to respond to is that the intent of this legislation is for a reciprocal trade agreement. Well, it has been implied—but I don't think it has been stated, so I would like to make this point—that we have no export opportunities, and I can't foresee where our tomato industry will ever have any export opportunities, because foreign tomato suppliers are well entrenched in markets throughout the world and virtually monopolize these markets outside the United States. And, unlike these foreign suppliers who have access to worldwide markets, the U.S. market is our only market, and if we lose it we have nothing.

Thank you.

[The prepared statement of Mr. Henriques follows:]

STATEMENT OF DONALD A. HENRIQUES, CONTROLLER, SUN GARDEN PACKING CO.

My name is Don Henriques; I'm the controller for Sun Garden Packing Company. We're located at 1582 South First Street in San Jose, California 95110 - phone (408) 297-1185.

On behalf of Sun Garden Packing Company, we ask your help in keeping the current tariffs and the FTA exclusion on tomato and tomato products from any Free-Trade area agreement. What's at stake is the future of the independent tomato processor and their employees. Sun Garden alone employs about one thousand employees of which the majority are seasonal, minority people. If the tariffs are removed, we'll be put out of business and they'll lose their jobs.

Our company is a forty-one year old, family owned, independent, California tomato processor. We produce approximately three percent (3%) of the total California, processed tomato production. We custom process a full line of tomato products for retailers and wholesalers under their own private label.

We don't have a nationally advertised, well known, brand label so we can only compete in price. Underpriced, foreign imports greatly affect us as they sell to many of the same buyers we do and, frankly, they are pricing us out of our own market.

Competing tomato products produced in Israel and selling F.O.B. the Eastern markets are priced several dollars per case below us. Despite existing tariffs, Israel is underpricing us. Exhibit (A) shows the estimated pricing advantage of one (1) case of Israeli pizza sauce. The published, ocean transport rates from Israel to our Eastern markets are less than our freight costs from California to the same Eastern markets and the Israelis negotiate rates that are less than published rates.

We pay a fair, livable, union contracted salary to our people. The average hourly union rate paid in our industry for 1983 was $11.79 ($9.26 wages, $2.53 fringe). Compare this to the reported $1.00 per hour the Israeli's pay to their production labor and we can see yet another cost advantage they have over us.

Our national consumption of tomato products remain stable. While we have the capacity to produce more than we can sell, our share of the market is being reduced and that portion replaced by foreign products. Exhibit (B) shows the dramatic increase of Israeli products into the U.S. market from 1978 compared to 1983, and this was done with prevailing tariffs. The high increase of almost seven thousand percent in tomato paste alone gravely concerns us.

We feel the Israelis have taken advantage of government subsidies in order to penetrate and gain a foothold in our markets and now that they are established, they will, provided we drop our tariffs, abolish their subsidies. This trade off can hardly be construed as fair trade.

Exhibit (A) shows the overwhelming price advantage the Israelis would have over us if the duties were abolished. It would allow them to sell their products on the West coast for less than what they are selling for today in the East. The Israelis would be encouraged to continue to increase their share of the U.S. market by offering underpriced tomato products in every region of our Country with little competition from domestic products.

The currency exchange rate alone for just one month (April-May) favored the Israelis by almost 15%. We view the Free-Trade proposal as giving a major competitor another advantage to add to the many advantages he already has. I can't foresee where our tomato industry will ever have any export opportunities. Foreign tomato producers are well entrenched in markets around the world and virtually monopolize the tomato markets outside the U.S. Unlike foreign producers who have access to world-wide markets, the U.S. market is our only market and if we lose it we have nothing.

COMPARATIVE ANALYSIS OF ONE CASE OF PIZZA SAUCE

ISRAEL VERSUS SUN GARDEN PACKING CO.

EXHIBIT A

		ISRAEL	SUN GARDEN PACKING CO. CALIFORNIA PROCESSOR
Selling Price F.O.B. Point of Origin		$ 8.76	$13.50
*Ocean Frt. (HAIFA to New York) @ $5.11 cwt.		2.30	
Import Tariff (.136 of 8.76)		1.19	
Frt. West to East Coast		———	2.50
Selling Price - East Coast		$12.25	$16.00
Eliminate Tariffs	$1.19		
**Profit Margin on Currency Exchange	1.59		
Sub-total	$2.78	2.78	
Adjusted Selling Price		9.47	
Freight from Eastern Markets to West Coast		2.50	———
Estimated Price West Coast Markets		$11.99	$13.50

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*Published rate - however, the Israel tomato industry, as a group, negotiate ocean transport rates that are lower than published rates.

**Profit on currency exchange calculations:

Selling Price	$ 12.25
Converted to shekels on 5/4/84 (12.25) X (185.30) =	2,269.93
Converted to shekels on 4/8/84 (12.25) X (161.29) =	1,975.80
Currency (shekel) Exchange profit	$ 294.13
Shekel Profit converted to U.S. dollars on 5/4/84	$ 1.59

$\frac{1.00}{185.30}$ = (.005396) X (294.13) = 1.59

$\frac{294.13}{1975.80}$ = 14.9 percent

ANALYSIS OF ISRAELI TOMATO PRODUCTS INTO U.S. MARKETS - 1978 VERSUS 1983

EXHIBIT B

YEARS	U.S. IMPORTS FROM ISRAEL (POUNDS)	INCREASE POUNDS	INCREASE PERCENT
CANNED TOMATOES			
1978	7,451,389		
1983	48,772,442	41,321,053	554.54

Israel is ranked as the third largest foreign supplier of canned tomatoes to the United States in 1983, after Italy and Spain.

TOMATO PASTE			
1978	239,030		
1983	16,648,729	16,409,699	6,865.12*

Though Israel was ranked as the fifth largest foreign supplier of tomato paste to the United States in 1983, they are dramatically increasing their position annually.

* This ambitious effort has resulted in an average increase of over one thousand percent each year since 1978 which is quite an accomplishment.

TOMATO SAUCE			
1978	6,345,237		
1983	16,476,625	10,131,388	159.67

Israel again was the number one foreign supplier of tomato sauce to the United States in 1983.

Mr. Furman. Could I add three sentences?

Mr. Downey. Certainly.

Mr. Furman. There is a misconception that Israel is so small they cannot hurt us. Pennsylvania grows 6,000 acres of tomatoes. Israel, in 1980, grew 9,000; in 1983, it was 16,000. And they have the ability to go to 44,000 acres. Already they have three times as many acres in Israel as we have in Pennsylvania, and they can go to seven times as much.

To say they are so small they can't hurt us just doesn't seem to be correct.

Mr. Downey. Thank you, Mr. Furman.

Mr. Zollinger, let's take a look at the statistics together.

Were there others?

Mr. Zollinger. We still have several.

Mr. Blodgett. Mr. Chairman, we have submitted comments already, so we are here for questions.

[Swift/Hunt-Wesson Foods, Inc., material follows:]

SWIFT/HUNT-WESSON FOODS, INC.

ISRAELI FREE TRADE AGREEMENT

Discussion Outline

June 8, 1984

1. The proposed agreement, unrestricted, will cause grave dislocations in domestic tomato production which will affect thousands of employees in farming, processing, transportation and supporting industries.

2. American producers cannot effectively compete with imports because of heavy subsidization of tomato products by foreign producers.

   a) Israeli tomato paste, landed East Coast, sells for 43.08¢/lb. U.S. processor cost of sales of 33.63¢/lb. would leave 9.45¢/lb. available to growers. That equates to $31.66/ton for U.S. growers. Out-of-pocket cost to raise tomatoes in California (90% of U.S. production) is $50.00/ton.

   b) The U.S. tomato industry is highly efficient and could easily dominate world markets if foreign producers were not heavily subsidized. The Italian subsidy equates to $70-75 per ton for tomato paste products. Israel is similarly heavily subsidized.

3. Tomato product consumption rates increase at 1-2% per year. Thus, imports have an immediate negative impact on the industry.

4. In tonnage, imports have grown from 1.5 - 2.75% of U.S production in 1980 to 10.0% in 1983. Current rate of imports is greater than 11.0%.

5. Imports have grown from 3% of consumption in 1980 to 15% of consumption in 1982. In terms of puree, paste and sauce products, imports have risen from 10% of consumption in 1981 to 24% in 1982.

6. Current imports equate to:
   . the combined total production of processing tomatoes in Ohio, Indiana, and Michigan
   . 65% of all U.S. processing tomato production outside of California
   . $17 million of direct labor payroll
   . 28,000 acres of tomatoes
   . $43 million of income to U.S. tomato growers
   . $50 million of income to U.S. packaging material suppliers
   . $10 million of income to the U.S. transportation industry

7. Domestic producers are under severe profit pressures owing to subsidized imports. Drum tomato paste sold in 1981 at .622¢/lb., sold in '82 at .498¢/lb., and sold in 1983 at .475¢/lb. estimated. During this period subsidized imports increased dramatically with the results shown.

8. The U.S. tomato industry is not asking the Government for any subsidies. Rather it is asking for protection from other nations who are subsidizing their industry thus currently threatening domestic producers and processors.

9. Our April 1984 testimony before the U.S. International Trade Commission suggested investigation of subsidization of tomato imports from Mexico, Italy, Taiwan, Spain and Israel in order to avoid severe dislocations in the U.S. tomato industry.

10. We urge this Committee to restrict free trade with Israel by excluding the tomato industry at least until such times as it is clear as to how the Israelis are able to land products in the U.S. at two-thirds the cost of domestic farm production.

SWIFT/HUNT-WESSON FOODS, INC.

Swift/Hunt-Wesson Foods, Inc.
1645 West Valencia Drive
Fullerton, California 92634-5003
Telex 692444
(714) 680-1043

JOHN F. STOLLSTEIMER
Executive Vice President

June 8, 1984

The Honorable Sam Gibbons
Chairman, Subcommittee on Trade
Committee on Ways & Means
1102 Longworth
House Office Building
Washington, D.C. 20515

Dear Chairman Gibbons:

We submit the attached comments regarding the economic effects of providing duty-free treatment for U.S. imports from Israel.

We will be prepared to answer questions at the subcommittee hearing on Wednesday, June 13, 1984.

The unrestricted trade agreement as proposed presents very significant and threatening economic dislocation for the U.S. Tomato Processing Industry including growers, processors, suppliers, and employees in the tens of thousands.

Tomato product subsidization by foreign governments precludes major sectors of domestic U.S. industry from profitable competition here. We believe the attached comments and exhibits present clearly the reasons why an unrestricted trade agreement with Israel will compound and exacerbate that condition.

Thank you.

Very truly yours,

John F. Stollsteimer

John F. Stollsteimer
Executive Vice President

/kj
attachments

cc: C. W. Blodgett, Director of Corporate Relations
M. Burt, Director of Agricultural Operations

PROPOSED ISRAELI FREE TRADE AGREEMENT 6-8-84

Presentation to the Subcommittee On Trade
Committee on Ways & Means

Mr. Chairman, Members of the Committee, Ladies and Gentlemen:

My name is John F. Stollsteimer. I am Executive Vice President of Swift/Hunt-Wesson Foods, Inc., a wholly-owned subsidiary of Esmark, Inc. We are one of the largest tomato processors in the United States, with three canneries in California, one in Ohio, and one in Tilbury, Ontario, Canada.

Based on published data, we believe we, on average, process approximately 14 percent of the total U.S. tomato crop. Our canneries produce a full line of tomato products, including whole peeled tomatoes, tomato sauce, tomato paste, and tomato ketchup. In addition to that, we manufacture a variety of specialty products such as barbeque sauce and Sloppy Joe Mix. All our products are sold under the Hunt® trademark. We sell not only to the grocery trade but also to the foodservice outlets which service restaurants, hospitals, and mass-feeding operations. We also manufacture and sell bulk tomato paste which is sold in the industrial market to other processors who utilize it in making such things as frozen pizza. Thus, you can see we participate in all aspects of the tomato market in the United States.

I wish to thank you for the opportunity to discuss with you an issue of crucial importance, not only to the tomato processors, but also to tomato growers, cannery workers, and our supplying industry, such as can manufacturers, corregated producers, and the transportation industr which moves our goods to market. My purpose here today is threefold:

1) to demonstrate the recent dramatic growth in the imports of canned tomato products into the United States

2) to demonstrate the depressing effect these frequently subsidized imports have on the U.S. tomato industry, and

3) to demonstrate that a non-restricted trade agreement, such as that proposed for Israel, will accelerate the growth of canned tomato imports, reducing further demand for domestic produced products and result in a decline in domestic production, sales, and employment.

GROWTH IN TOMATO IMPORTS

Tomato imports have grown dramatically over the past three years, both in terms of the absolute volume of product imported and as a percent of the domestic crop. In Exhibit I, we have displayed total U.S. processing tomato tonnage as reported by the USDA on a crop-year basis and the tonnage equivalent of canned tomato product imports as reported by the U.S. Census Bureau. A review of this chart will demonstrate the degree to which imports have grown.

In the four crop years ending with 1980, the average level of tomato product imports was the equivalent of 173,000 tons. In that same four-year period, imports ranged from 1.5 to 2.75 percent of total U.S. production.

During the 1981 crop year, imports jumped six-fold from 110,000 tons fresh equivalent to 651,000 tons fresh equivalent and were equal to 11.4 percent of domestic production. In the 1982 crop year, imports declined to 561,000 tons fresh equivalent and were equal to 7.7 percent of domestic production. The 1983 crop year is not yet over, but based on the rate at which imports are currently entering the United States, it would appear that they will equal close to 700,000 tons fresh equivalent and will equal 10.0 percent of domestic production.

Thus, in the 1983 crop year, imported tomato products are estimated to be seven times greater than they were in the 1980 crop year and have grown from 1.7 percent of domestic production in the 1980 crop year to 10.0 percent of domestic production in the 1983 crop year. That, ladies and gentlemen, is what I mean when I say that imports of tomato products have grown dramatically over the past three years.

IMPORTS AS A PERCENT OF TOMATO PRODUCTS CONSUMED IN THE UNITED STATES

A report recently published by the International Trade Commission Staff 1/ illustrates the growth of imports as a percent of U.S. consumption of canned tomato products.

Exhibit II, which represents data taken directly from the referenced publication, indicates that imported tomato products represented 15 percent of U.S. consumption of canned tomato products in calendar year 1982 versus an average of 4 percent in the 1978-1980 period.

Exhibit III, taken from the same publication, indicates that for tomato paste, puree, and sauce, imports represented 24 percent of U.S. consumption in 1982 versus an average level of 4 percent in the 1978 through 1980 period. These data once again make the point that imported tomato products have made dramatic inroads into the domestic U.S. market over the past three years.

Thus, whether we view imports as a percent of U.S. production or a percent of U.S. consumption, their growth in the past three years has been substantial. One way to look at how important imports have become is to consider the fact that imported tonnage is currently the equivalent of:

- two of the largest tomato processing plants in the United States, or
- the combined total processing tomato production in Ohio, Michigan, and Indiana, or
- 65 percent of all U.S. processing tomato production outside of California

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1/ Summary of Trade and Tariff Information. USITC Publication 841 Control 1-8-43 February, 1984.

SOURCE OF IMPORTS

Exhibit IV displays the source of imported tomato products and rate of growth in imports from specific countries for the period 1977 through 1983. A review of this graph reveals that imports have increased sharply from all points of origin during the 1980 through 1983 period. However, in terms of growth in shipments to the United States, Taiwan and Israel have shown the greatest rate of increase. Taiwan's exports of tomato products to the United States were eight times greater in the 1982-1983 period than they were in the 1977-1980 period. Israeli shipments of tomato products to the United States in the 1982-1983 period were five times greater than in the 1977-1980 period. Thus, while Italy has been consistently the largest supplier of imported tomato products unto the U.S. market, Taiwan and Israel have become major factors in U.S. tomato imports in the past two years.

IMPACT ON DOMESTIC INDUSTRY

Having demonstrated the rate of growth in tomato product imports in the past three years, one might ask what influence have these imports had and what will be the impact in the future.

One way to measure the impact of this avalanche of imports is to look at the imputs represented by imported tomato products in 1983.

The tonnage equivalent of 1983 imports would be equal to the following in terms of resources used by the domestic industry:

- two million man-hours of labor--or 2,000 seasonal manufacturing jobs
- seventeen million dollars of direct labor payroll
- twenty-eight thousand acres of tomatoes

- forty-three million dollars worth of income to U.S. tomato farmers
- fifty million dollars of packaging material normally supplied by U.S. manufacturers
- ten million dollars in transportation.

Thus, imports represent a substantial economic loss to U.S. labor, U.S. farmers, U.S. manufacturers, and the U.S. transportation industry.

I have previously stated that imports of tomato products are equal to the output of two of the largest tomato canneries in the United States.

IMPORT GROWTH RELATIVE TO GROWTH IN CONSUMPTION

One could ask is tomato product consumption in the United States growing at a rate which will support the substantial increase in imports we have observed without damaging the domestic industry. The consumption data prepared by the International Trade Commission Staff indicates a compound growth rate for tomato consumption in the 1977-1982 period of about 2.5 percent annually. Our own data on consumption of tomato products in total indicates a growth rate only slightly greater than population, with some markets growing while others decline. Given either our estimate of market growth at 2.0 percent or the International Trade Commission's estimate of 2.5 percent annual growth, it is clear that increasing imports by 300 to 350 percent on an absolute basis, or from 4 percent to 15 percent of total consumption, can only have the effect of reducing the market available to domestic producers.

Without the duty protection currently existing, this problem would be compounded to the point of substantial decline in domestic production and all that it implies.

HISTORICAL DATA ON DOMESTIC PRODUCTION, IMPORTS, AND FINISHED PRODUCT PRICES

In Exhibit V,we show U.S. production of processing tomatoes in fresh equivalent tons, imports in fresh equivalent tons, total supply, and our estimate of the relevant annual, average selling price for two products that compete directly with imports.

In the right-hand columns, we have listed our estimate of the prevailing average annual selling price for drummed paste and 6/10 whole peeled tomatoes for the year following production. In other words, production in 1977 is linked with prices for calendar year 1978. As you can see, tomato prices were very depressed in the 1977-1980 period, principally as a result of domestic overproduction. This was a period of time when proprietary tomato canners and cooperative canners suffered devastating losses with numerous plant closings. The market effect of this condition caused lower domestic production in 1980. Concommitant with that reduction in supply came a price increase which allowed both growers and processors to return to more normal returns. A crop shortage in 1981 created additional shortages which further helped prices. In 1982, domestic production resumed near normal levels. Importantly also, the U.S. experienced a dramatic increase in imports which created the largest tomato supply in history. Price declines were predictable. Profit compression was predictable. The resultant impact of imports is lower grower returns in the long-term and a continuation of a no-growth pattern in domestic tonnage.

Here we have our final chart, Exhibit VI. It has been developed for purposes of discussing subsidized imported tomato products and the ultimate effect on tomato growers. The 1983 calculations are based on our knowledge of costs and selling expenses for drum tomato paste.

The chart shows that subsidized Israeli tomato paste shipped in 55-gallon drums is available to U.S. customers at 43.08¢ per pound. To compete at such prices, the American cost to manufacture such paste plus a 10% gross profit to the processor would leave 9.45¢ per pound available to the grower. Calculating that out, it would indicate that in order for the California tomato grower to compete with subsidized Israeli paste on the East Coast, he would have to be willing to produce tomatoes for about $30/ton. This is some $25/ton less than the current prevailing market price.

We believe an efficient California tomato grower has approximately $40-50 of direct cash expenditures with normal yields. Since we believe that normal input for any agricultural crop are a function of world-wide markets, it is highly unlikely that direct cash inputs for the U.S. tomato industry are significantly different from the non-subsidized rates we'd find in other parts of the world.

The issue here is the subsidy. Dr. Kirby Moulton, Economist, Cooperative Extension Service, University of California, Berkeley, has shown that the combined Italian processing and grower subsidy is about $70-75 per ton for paste products. As I am sure you are aware, the tomato subsidy in Italy is a function of those prices for imported tomato products that are available for sale to Common Market countries, including prices being offered by Israel. It should be readily apparent that if the California tomato grower and processor would receive a $70 a ton subsidy, the United States would be a serious competitor in the world market.

We are here today to discuss tomato imports and the Free Trade Area proposed for Israel. As indicated previously, this is a matter of concern to growers, proprietary canners, grower cooperatives, cannery labor, farm labor, and suppliers to the canning industry. We appeal to you to consider the impact of subsidized imports and particularly, the free trade issue with Israel and its effect on the U.S. tomato industry. Free trade is not our cause for concern here today. This industry would willingly compete on an equal basis with tomato processors throughout the world. The real problem is subsidized imports from whatever origin. As we illustrated previously, imported, subsidized tomato products directly threaten the economic survival of the U.S. tomato industry, grower and processor alike. Free trade for Israel will merely aggrevate the existing situation. We are not opposed to free trade, but we cannot compete with imports that are subsidized at levels that equal as much as 50 percent of the cost of production.

Subsidy amounts can be quantified through the Common Market and are based on values of tomato products available to the Common Market including those from Israel. None of our commercial contacts deny that Israel subsidies exist. In fact, all say, in general terms, that the Israeli method of cooperative farming and processing has subsidized the Israeli industry. We have been unable to document the exact degree of the subsidy. However, the ability of Israel to compete in what is known to be a highly subsidized world market industry provides strong indications that Israeli subsidies exist.

In closing, we ask that you consider the following points:

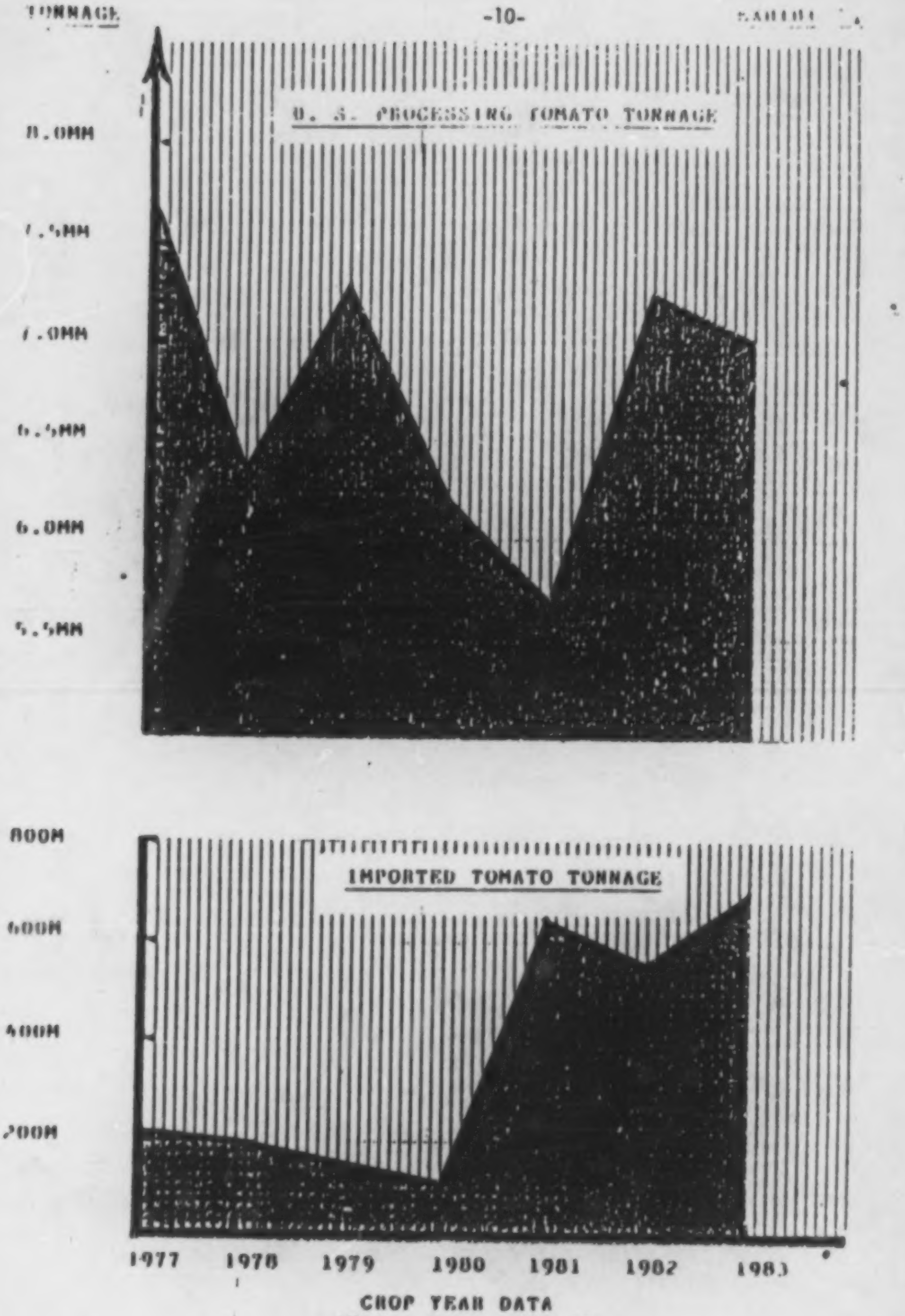
1) we urge that tomatoes be exempted from any free trade area for Israel that may be considered or granted

2) we further urge that the USITC seriously consider the nature of export subsidies on tomato products by the Common Market, Taiwan, Israel, and Mexico and the effect on the U.S. industry.

We, as a company, believe that competition is healthy for any industry. Competition within the U.S. food industry has provided a variety of nourishing, wholesome, and low-cost food products to American consumers at a declining percent of total disposable income. However, the U.S. industry cannot compete with imports that are subsidized to the extent this currently exists in tomato products. We urge that this Commission and other U.S. Government agencies take action to countervail against the actions taken by governments of other nations that have created the current situation.

Thank you very much.

EXHIBIT 4



CROP YEAR DATA
JULY 1 THRU JUNE 30

EXHIBIT II

TOMATOES, PROCESSED: 1/ U.S. PRODUCTION, EXPORTS, IMPORTS AND APPARENT CONSUMPTION

(QUANTITY IN THOUSANDS OF POUNDS)

(INCLUDES PUREE, PASTE, SAUCE AND OTHER CANNED TOMATOES)

YEAR	PRODUCTION 2/	EXPORTS	IMPORTS	APPARENT CONSUMPTION	IMPORTS % OF CONSUMPTION
1978	2,191,784	64,824	132,272	2,260,232	6
1979	2,516,904	90,291	90,414	2,517,027	4
1980	2,221,824	70,449	66,997	2,218,372	3
1981	1,928,928	67,848	171,546	2,032,626	8
1982	2,236,896	50,150	386,872	2,573,618	15

1/ PARTLY ESTIMATED BY THE STAFF OF THE U.S. INTERNATIONAL TRADE COMMISSION.
(SOURCE: USITC PUBLICATION 841, EXCERPTED FROM TABLE 8)

EXHIBIT III

TOMATOES, PROCESSED: 1/ U.S. PRODUCTION, EXPORTS, IMPORTS AND APPARENT CONSUMPTION

(QUANTITY IN THOUSANDS OF POUNDS)

(INCLUDES ONLY PUREE, PASTE AND SAUCE)

YEAR	PRODUCTION 2/	EXPORTS	IMPORTS	APPARENT CONSUMPTION	IMPORTS % OF CONSUMPTION
1978	1,011,000	36,607	58,107	1,032,500	6
1979	1,247,400	48,607	44,847	1,243,640	4
1980	947,520	35,498	27,116	939,138	3
1981	682,440	35,655	74,319	721,104	10
1982	722,760	30,173	219,854	912,441	24

1/ PARTLY ESTIMATED BY THE STAFF OF THE U.S. INTERNATIONAL TRADE COMMISSION.

(SOURCE: USITC PUBLICATION 841, EXCERPTED FROM TABLE 9)

EXHIBIT IV

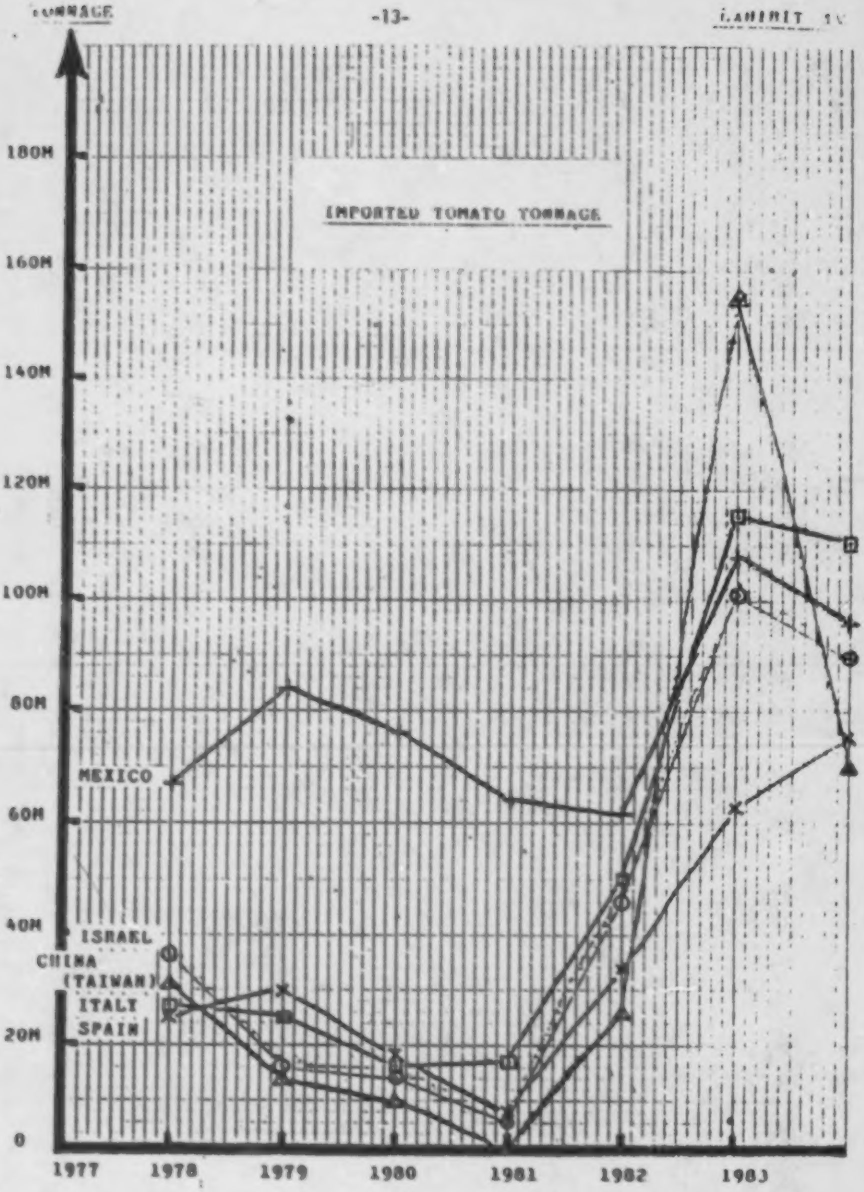

TONNAGE
IMPORTED TOMATO TONNAGE
180M
160M
140M
120M
100M
80M
60M
40M
20M
0
MEXICO
ISRAEL
CHINA (TAIWAN)
ITALY
SPAIN
1977
1978
1979
1980
1981
1982
1983

EXHIBIT V

U.S. PRODUCTION, IMPORTS AND PRICES

CALENDAR YEAR	TOTAL U.S. PRODUCTION (2)	U.S. IMPORTS (3) FRESH EQUIV.	TOTAL SUPPLY	PRICES (1) DRUM PASTE	PRICES (1) 6/10 WHOLE PEELED
1977	7,773,150	223,206	7,996,356	.369	8.29
1973	6,367,700	201,741	6,569,441	.359	7.54
1979	7,329,510	162,852	7,492,362	.372	8.68
1980	6,210,590	122,000	6,332,590	.500	10.85
1981	5,716,130	651,000	6,367,130	.622	12.15
1982	7,298,990	561,000	7,859,990	.498	11.33
1983	7,032,200	700,000 EST.	7,732,200	.475 EST.	11.65 EST.

1. PRICES ARE FOR THE YEAR FOLLOWING PRODUCTION.
2. FROM USDA CROP & LIVESTOCK REPORTING SERVICE.
3. U.S. CENSUS BUREAU OF TOMATO IMPORTS CONVERTED TO FRESH TONNAGE.

EXHIBIT VI

ESTIMATE

CALIFORNIA GROWER TOMATO PRICE
BASED ON COST OF ISRAELI IMPORTS
1983
(U.S. CENSUS DATA)

A. VALUE OF ISRAELI PASTE LANDED EAST COAST AFTER DUTY OF 13.6%	43.08¢/LB.
B. U.S. PROCESSOR COST OF SALES	(33.63¢)/LB.
C. BALANCE AVAILABLE FOR CALIFORNIA GROWER	9.45¢/LB.
D. CONVERTED VALUE PER TON OF TOMATO INCOME FOR GROWERS	$31.66/TON

Mr. **Downey**. Let's go through the statistics. With respect to canned tomatoes first, in appendix B, notwithstanding Israel's enormous increase—and it certainly has since 1978, from the figures you provide—it has only been a fraction of the total increase. Total U.S. imports in 1978 amounted to 74 million pounds under the title "Canned Tomatoes," and in 1983, it was 186 million pounds.

Where else is it coming from?

Mr. **Zollinger**. Israel and Taiwan and Mexico and Italy are the prime importers.

Mr. **Downey**. Israel has more than a quarter of that, 26 percent, and you say that Taiwan and Mexico——

Mr. **Zollinger**. Israel has been one of the fastest growing tomato producing regions in the area.

Mr. **Downey**. The point I am making, Mr. Zollinger—I am not arguing that they are fastest growing and biggest——

Mr. **Zollinger**. Right.

Mr. **Downey**. But when you go from 74 million to 186 million, something else is at work there, too.

Mr. **Zollinger**. Certainly.

Mr. **Downey**. Obviously, there are a lot of other people clawing and scraping to get into the market and doing it fairly well.

Mr. **Zollinger**. Certainly.

Mr. **Downey**. Now, with respect to——

Mr. **Zollinger**. This is our concern, Mr. Chairman. We have a problem already.

Mr. **Downey**. And you stated at the outset of your remarks, Mr. Zollinger, that you have made your case to the ITC, and I am going to see why.

Let me talk about tomato paste, as well, and then you can begin.

Do you know, first of all, any change in American consuming habits with respect to canned tomatoes, tomato paste, or puree? Are Americans using more of it or less of it now than they did? Is it stable?

Mr. **Zollinger**. I would like to defer.

Mr. **Blodgett**. It is stable.

Mr. **Downey**. So that these increases, dramatic as they are, should be put in context. I would point out to you that your own statistics say that in the case of tomato paste, while the Israeli growth has been gigantic in the last two years, as you point out, in 1982 and 1983, it has been going down from its high in 1981?

Mr. **Zollinger**. Right.

The market rationale in terms of tomato paste, Mr. Chairman, is that probably tomato paste, because of the number of processing facilities that have been constructed throughout the world, in other nations and the United States, the Israeli marketing strategy seems to have shifted to canned tomatoes, diced, canned tomatoes.

Mr. **Downey**. Away from paste?

Mr. **Zollinger**. Right.

Mr. **Downey**. And even to a certain extent away from sauce?

Mr. **Zollinger**. They are dramatically increasing—well, sauce is still pretty good. But they are dramatically increasing the diced portion which is under canned tomatoes.

Mr. Downey. I should say, being half Italian, I have a certain sympathy to tomato production. I mean, the more of it, in my opinion, the better.

Mr. Zollinger. Good. We will be happy to furnish some.

Mr. Downey. That is all right. I have all the Israelis'. I am kidding; a bad joke.

I think you have made an important point. And you also, in your appendix D, point out that—well, at least it appears that when you include puree, paste, sauce, and other canned goods, American production is pretty stable.

Mr. Zollinger. Yes.

Mr. Downey. It is just that the imports have grown——

Mr. Zollinger. Right.

Mr. Downey [continuing]. Just very, very dramatically. And Israel, as far as you are looking at it, is one of the most dramatic of the people with whom you compete.

Mr. Zollinger. Right.

Excuse me, Mr. Chairman. This is a problem with the free trade area, when we think about other nations. You notice the exports. Again, going back to what Mr. Henriques said, in terms of exports we really are not exporting very much.

Mr. Downey. I understand that. This is the domestic market.

Mr. Zollinger. This is the domestic market. That is all.

I am sorry, Mr. Chairman.

Mr. Downey. Who is the principal other competitor? Taiwan and Mexico? Is Mexico first, Taiwan first? Which one is first?

Mr. Zollinger. Taiwan, Italy, and Mexico.

It depends upon which product you are talking about, Mr. Chairman. If you are talking about tomato paste, probably Mexico would be the next largest competitor, followed by Taiwan.

Mr. Downey. Let me just ask you one other question about innovation in packaging. My wife, I notice, buys—this will be stopped after this meeting—Italian tomato paste in little boxes and cans. It is not in cans any more. It appears to be packaged in tubes.

Mr. Zollinger. In tubes.

Mr. Downey. Do we do that?

Mr. Blodgett. No, we do not. The reason is that the tomato paste in the United States is generally so cheap that it doesn't pay to put it into a tube, which adds to the packaging. When, in fact, the housewife—a little commercial here—could just take that paste and put it in an icecube tray and freeze it for a later date if she did not want to use the total package. Apparently, in Italy they don't have that capacity.

Mr. Downey. A very enlightening group. You have been very, very helpful to me.

Mr. Thomas.

Mr. Thomas. Mr. Chairman, just one point so that you understand the thrust of all the discussion. Despite what other people have said about the leading edge of wedges, et cetera, if you will take a look at that same page that you are looking at, appendix B, under "Tomato Sauce," a case could be made that Israel had virtually a monopoly on the import market.

Mr. Downey. Sure.

Mr. THOMAS. And that, in fact, the comparison percentages between 1980 and 1983 show a drop of 3 out of every 4 pounds—now 2 out of every 3 pounds—and that the discussion could lead to Taiwan, Mexico, and Italy. We are not talking about that.

The question before us is the free trade area in terms of Israel. That is why these statistics are directed specifically in terms of Israel's question. If we were discussing the others, you would see very dramatic figures indicating Taiwan, Mexico, Italy.

Mr. DOWNEY. I appreciate that, Bill. It gives me some perspective that the industry has got some trouble, first of all, and that is helpful to know.

Mr. ZOLLINGER. Could I add one thing, Mr. Chairman?

Mr. DOWNEY. Certainly.

Mr. ZOLLINGER. One thing I didn't say is that if this free trade area with Israel goes into effect—just talking about Israel, no other free trade areas—1 out of every 6 tons of tomatoes in California will be displaced. That means that a tomato grower in California—the average California tomato grower is about 400 acres—that means he is going to lose 1 out of every 6 of those acres. Now, when he loses those acres, he is going to look at some other crop. He is going to try to squeeze into some other industry. That means somebody else is going to be squeezed out of that industry. So it is kind of like a pebble in a huge pond, Mr. Chairman.

Mr. DOWNEY. I understand.

Mr. THOMAS. Mr. Chairman, could I ask a couple more questions?

Mr. DOWNEY. Of course.

Mr. THOMAS. Especially on the testimony, Mr. Zollinger, you indicated in your testimony that you met recently with Ambassador Brock and that he indicated that there was an ITC report that made you folks look pretty good.

How did you characterize the report, or did he in fact give you a specific reference to the report?

Mr. ZOLLINGER. Yes, Mr. Congressman. Ambassador Brock made specific reference to the report from the standpoint that we asked the Ambassador when the report was going to be released, when the information from the report was going to be released, and if the study was concluded. And he indicated that, yes, the study was concluded.

The ITC had tabulated all the information and reached their findings. And, as I stated, we had made our case. That is what he indicated.

He also indicated, when I asked him, that the report was not going to be released. Specifically, it was not going to be released.

Mr. THOMAS. Did you ask the question, or did he indicate that it might be available on a limited circulation basis to Members of Congress?

Mr. ZOLLINGER. He was emphatic to us in stating—in fact, I asked him the question in all fairness, and he was quite candid. As you know, he is a very fine gentleman. And I will say that he stated to me, "Mr. Zollinger"—when I asked him about the report, he said: "I am sorry. We are not going to be able to release it to you in time."

Mr. THOMAS. You also indicated that he mentioned other free trade areas, and the discussion that we have gotten in terms of direct testimony at previous hearings is that the only thing on the table is the free trade area with Israel and the limited relationship with Canada.

Mr. ZOLLINGER. Right.

Mr. THOMAS. And that there were no others anticipated at this time.

Could you characterize to me why you think that he was indicating that there would be others, or why did you make that statement?

Mr. ZOLLINGER. The Ambassador stated that there would be other free trade areas, numerous other free trade areas established with numerous other nations. It is an ongoing thing. We asked the Ambassador, in fact, "When do you feel that this free trade area thing would be expanded?" His statement was that when we accomplish our work with the Israeli free trade area and the Canada free trade area and get that behind us, then we will move forward with others, in effect, in so many words.

Mr. THOMAS. Again, on page 3 of your testimony, you say that the imports of tomatoes and tomato products has risen dramatically in recent years. The rise is largely attributed to unfair trade practices.

We have talked about the question of subsidies and whether you can find them or not. Does anybody have any evidence from the industry about subsidies? Do you talk about it generally? Do you have anything specific?

Mr. BURT. Mr. Thomas, I am Maclay Burt.

I think we have heard a lot of conversation and comments concerning the possibility of subsidies and the difficulty of trying to identify them. We have attempted to look at the issue in a different way and really find that it is a moot point in the case of Israel. We examined it from the standpoint of the cost of manufacturing, the cost of production in Israel.

I think, as you pointed out earlier, the equipment and the machinery and the processing equipment in Israel is identical to that that we use in the United States. The technology is identical. The varieties used are identical, provided essentially by the University of California originally. Harvesting equipment is the same. There are some differences in labor costs, water costs, energy costs, this sort of thing.

In our best judgment, we have to conclude that the manufacturing costs are equivalent to that of the United States. If we accept that and look at the costs of purchasing tomato paste, for example, a large item on the east coast today, duty and freight paid, and if we convert that back to the farm gate and a grower price or grower cost, as you will, that represents a farm gate value 40 percent less than the cash cost of production to farmers in the United States. So, therefore——

Mr. THOMAS. But the sum of the parts don't equal the whole, and if there is something else there it has to be labeled something. And you don't know what you are going to label it, but there is something there.

Mr. BURT. Right.

Therefore, we conclude that the issue of subsidies per se really is moot.

Mr. **Thomas**. Now, another point, because I have been stressing the argument that if Spain and Portugal come into the EC, there is going to be a displacement potentially of Israeli products, and they might wind up in the United States.

What about the possibility of the reverse of that, given the knowledge that you people have about the industry; and that is, Mr. Rossio talked about duties being phased out. And, in fact, given the pressure on the EC in terms of subsidies, what happens if there is a relatively positive shift as far as the Israeli-EC relationship is concerned? Could we assume that the Israelis would tend to back out of the U.S. market and involve themselves more heavily in the EC market if there was a significant change in subsidies within the EC in terms of tomato products?

Mr. **Burt**. We would not anticipate that. Certainly within the EC market, while there are potential subsidy reductions, the mechanism or the basis to the subsidy currently is on a gross weight basis, product and container. That is likely to be shifted to a net weight basis. And, therefore, for a commodity such as tomato paste, industrial tomato paste in large containers, the weight of the container is very small in relationship, so therefore there is an immediate offset. So the degree of any subsidy reduction, of course, would be important.

Mr. **Thomas**. I don't think I fully understand you. Are you saying the way that subsidies and the taxes are now is that it is in the total weight, so you put it in smaller containers and there is no penalty? You are changing the net weight and so you put them in a much larger container so the container doesn't add up to the total?

Mr. **Burt**. Correct. So that the value relative to the product is higher.

Mr. **Thomas**. Depending on which way it goes, you just ship it in bigger chunks or even possibly for breaking down. So there is no advantage there.

Mr. **Burt**. Correct.

Mr. **Zollinger**. Only subsidy-wise.

Mr. **Thomas**. Briefly, you have covered it a bit in terms of the potential for the tomato industry in Israel. I don't want to dwell on it, but I do think that we have to continually make sure that people understand that we are not talking about the State of Israel and its 4 million people, not only not competing with Pennsylvania, Ohio, and California in terms of its broad agricultural base—nobody can outproduce us in terms of specialty crops—but clearly when a nation targets, focuses on a few specific processed products, they can be very successful.

I think that is the point you folks have been trying to make. That is the point that I have been trying to underscore. We are not talking about—for example, in my own county alone, the over drops is $1 million value added. We are not talking about even specialty agriculture. We are talking about a very narrow spectrum of processed products.

What concerns me is that what you have been hearing from some individuals, and especially those who are strongly supportive of an Israeli free trade area from the Israeli point of view, that Israel needs to have access to the U.S. market. They are in terrible shape in terms of the country. The load they are trying to carry is tremendous, and there are a number of people trying to figure out every advantage we can to assist Israel in carrying that load.

My concern is that there are a number of people who have the attitude that if there happen to have to be a few sacrificial lambs along the way, the ultimate objective is far more important; and, of course, the problem with that is that as long as it is not your lambs, you are not worried. Our point is that we have got some of our lambs.

Mr. **Zollinger.** I think following what he said, Mr. Congressman, Israel has been doing very well, thank you, in the tomato industry in the lucrative U.S. market. They really don't need zero duty if they have proven that they can do an excellent job in the market.

Mr. **Downey.** Thank you very much, gentlemen, for your testimony.

Let me just state for the other panelists that it is the Chair's intention to go through lunch and it is also the Chair's intention to adjourn this hearing by 2 o'clock.

The American Farm Bureau Federation, Mr. Tussey; Florida Citrus Mutual, Mr. McGrath; United Fresh Fruit and Vegetable Association, Mr. Keeney; American Dehydrated Onion and Garlic Association, Mr. Hume; and Mr. Rossio and Roses Inc., I just observed if we could put together the Onion & Garlic Association with the tomatoes we would be all set for a wonderful pizza or sauce or a whole host of other things.

I don't mean to come down on this particular panel more than any others, but we are going to go 5 minutes each and that's it and at the end of that time I am going to be as merciless as I can, which is not terribly merciless, and try and cut you off.

Mr. Tussey, we will let you go first and without objection, of course, all your statements and any appended materials that you would like to add to the record will be included at this point.

STATEMENT OF W. GLENN TUSSEY, ASSISTANT DIRECTOR, NATIONAL AFFAIRS DIVISION, AMERICAN FARM BUREAU FEDERATION

Mr. **Tussey.** Well, thank you, Mr. Chairman. Sense so many of the points that I have made in my statement have been adequately covered by Congressman Thomas and others I would like to focus on about two or three points from my statement and utilize my 5 minutes in that manner.

Mr. **Downey.** OK.

Mr. **Tussey.** Mention has been made but very little discussion has been given to the agreement regarding the free trade area with the common market that Israel has now. I would like to just read a brief quote from the London economist regarding that agreement and then tie it in with some of the fears that our farmers have.

I am quoting from the London economist of February 15, March 2 issue and it talks about or relates to Israel, the EEC and the possible Spanish membership in the European community. Quoting from that article it says:

Mediterranean farm trade, meaning the community countries, have managed to unite Israeli and Arabs on at least one issue. Both are opposed to the EEC's enlargement policy. They have protested separately, of course, that the farm exports to the community risk being cut back drastically once Spain and Portugal join.

They are right to be worried, although just how worried they need to be depends on the timetable of full Spanish entry into the community. Israeli prime minister was in Brussels this week to press his complaint. Israel's trade deficit with the community doubled last year. More than 70 percent of the country's agricultural exports go to the EEC. Spanish membership will increase the community's fruit production by 48 percent and vegetable output by 25 percent.

At present Spanish fruits and vegetables compete on a more or less equal footing with those from Israel, Cyprus, Turkey and to a lesser extent Egypt. Each has signed a trade agreement with the community, but when Spain joins, this production will become part of domestic production and so will take precedence over imports.

Now, I think that clearly reflects one of the huge fears of the producers of horticulture products in this country. I think that by observing the fears that the Israelis have of being pushed out of the European market to a certain extent it creates fears on the part of agricultural producers in this country who see that production coming this way.

It can be more detrimental if it is targeted for the U.S. market. So that is one point that I would like to make that has not been discussed too much here. The other point that I would like to make is the fact that Israel, and this was alluded to earlier, has signed some agreements under the GATT, but they are not signatories to the subsidy code of the GATT.

And with that status on dutiable items imported from Israel, U.S. producers can get relief without proving injury as long as Israel is in that status. But if we go into a U.S.-Israeli free trade area then that status will no longer exist and our producers will have to prove injury, whereas now like in the case of the cut roses where a subsidy was involved and there is now a 27-percent ad velorum or counterveiling duty that was placed there, injury did not have to be proven.

But under this proposed agreement injury will have to be proven and sometimes that causes small farmers, and small processors a great deal of chagrin because they do not have the resources to pursue some of the import relief that is available to them under existing laws.

Those are two points that I wanted to make. Another point that I would like to comment on is that I think it would be great and we would certainly encourage the ITC to release the study that has been made and discussed here so that this subcommittee and everyone concerned when they are focusing on the U.S.-Israeli free trade proposal will have access to just what kind of an impact it would have.

And my final concern that I would like to mention is the fact that this is not just something that is being done and being limited to Israel. It is going beyond that. Canada has already been mentioned and no doubt other countries down the line will be included, too. So it is very important that this be done right and that we address some of the concerns that you have heard expressed here this morning.

Thank you very much.

Mr. Downey. Thank you, Mr. Tussey.

[The prepared statement follows:]

STATEMENT OF W. GLENN TUSSEY, ASSISTANT DIRECTOR, NATIONAL AFFAIRS DIVISION, AMERICAN FARM BUREAU FEDERATION

Farm Bureau appreciates the opportunity to comment on the Administration's proposal to establish a free-trade area with Israel.

First of all, it seems we should take a look at what is being swapped for what. Some numbers on potential customers for both parties to the proposed agreement and the relative size of existing trade benefits to each will give an idea as to which party would be getting the best deal from this agreement.

Israel would be getting duty-free access to a market of 234 million people with a gross national product of over $3,310 billion. In return, the U.S. would be granted duty-free access to a market of about 4 million people with a gross national product of about $21 billion.

If a free-trade area is formed between the U.S. and Israel to eliminate duties and non-tariff barriers on substantially all trade between the two countries, it seems that far more total trade benefits would accrue to Israel than to the United States.

Although it is true that Israel imports more farm products from the U.S. than we import from them, the present trade balance for horticultural products between the U.S. and Israel is overwhelming in favor of Israel.

In 1982, the U.S. exported $6.3 million worth of horticultural products to Israel. We received from Israel $36.1 million worth of such products.

U.S. growers of horticultural crops have some real concerns relating to the impact on them if this proposal should become a reality.

We would like to call the Committee's attention to an article in THE ECONOMIST (London) 25 February - 2 March, 1984, issue, page 46, which relates to Israel, the EEC and possible Spanish membership in the EEC. We quote from THE ECONOMIST.

MEDITERRANEAN FARM TRADE

UNLIKELY ALLIES

The Ten have managed to unite Israelis and Arabs on at least one issue: both are opposed to the EEC's enlargement policy. They have protested (separately, of course) that their farm exports to the community risk being cut back drastically once Spain and Portugal join.

They are right to be worried--although just how worried they need to be depends on the timetable of full Spanish entry to the community.

The Israeli prime minister, Mr. Yitzhak Shamir, was in Brussels this week to press his complaints. Israel's trade deficit with the community doubled last year. More than 70 percent of the country's agricultural exports (largely fruit and vegetables) go to the EEC.

Spanish membership will increase the community's fruit production by 48 percent and vegetable output by 25 percent. At present, Spanish fruit and vegetables compete on a more or less equal footing with those from Israel, the Maghreb countries, Cyprus, Turkey, and, to a lesser extent, Egypt. Each has signed a trade agreement with the community. But when Spain joins, its production will become part of domestic production, and so will take precedence over imports.

End of quote from THE ECONOMIST.

U.S. growers of horticultural crops, when evaluating their future, view with alarm the prospect that Israeli horticultural crops displaced from the EEC market by Spanish production may be shifted full force to the U.S. market.

Another concern of the U.S. farmers is the fact that some Israeli horticultural products are the beneficiary of subsidies as was found by our Government in a finding against Israeli roses in 1980. The offsetting countervailing duty on roses imported from Israel is currently about 27 percent ad valorem.

U.S. farmers and ranchers are already faced with subsidized competition from the European Community, Brazil and others. It seems unfair to broaden such subsidy possibilities at a time when resolutions to many existing subsidy problems has not been obtained by our Government in its negotiating efforts.

Israel is not currently a signatory to the GATT Subsidy Code. Consequently, on dutiable items imported from Israel, U.S. producers can get relief from subsidized commodities and products without proving injury to their industry. If Israel should be granted duty-free status without qualifications under the proposed free-trade area, an injury test would be required. The legal fees to pursue relief under injury test requirements are often more than farmers can afford. Thus, horticultural producers would find procedures for countering subsidized imports from Israel more difficult than is currently the case.

This-free-trade area proposal could have a considerable adverse impact on U.S. growers of horticultural commodities and products which are competitive with the imports which would come in duty-free from Israel.

The impact could be extensive if the import volume increases substantially in the horticultural area. Citrus, flowers, avocados and tomato products are the most senstive areas.

Growers fear that the Israelis may target the U.S. market and increase their volume to this country dramatically after receiving duty-free treatment under the U.S./Israeli Free-Trade Agreement. This prompts Farm Bureau to ask that horticultural commodities and products be exempted from the proposal.

Farm Bureau has consistently supported multilateral trade negotiations, and we feel that another round of such negotiations would be more appropriate with trade benefits much more far reaching and widespread than would be bilateral arrangements such as the proposed free-trade area with Israel. U.S. agriculture supports measures for freer trade but only if there is a fair balance between the value of concessions and counter concessions.

Israel already gets substantial tariff breaks under the Generalized System of Preferences (GSP) Program as well as substantial U.S. foreign aid. We understand that 59 percent of the agricultural imports are eligible for GSP status. Israel, while enjoying substantial tariff advantage under GSP, can petition for additional duty-free exports to the U.S. as other developing countries do under the GSP rules. Therefore, it would seem that Israel should be accorded neither more nor less tariff advantage than is accorded our other friends who are equally anxious to develop their economies.

Mr. Chairman, and members of the Committee, we will appreciate consideration of our views as legislation is developed on this free-trade area proposal.

Mr. Downey. Mr. McGrath.

STATEMENT OF BOBBY F. McKOWN, EXECUTIVE VICE PRESIDENT, FLORIDA CITRUS MUTUAL, PRESENTED BY MATTHEW T. McGRATH, COUNSEL

Mr. McGrath. Thank you very much, Mr. Chairman. I, like Mr. Tussey, will try to summarize and eliminate some of the comments that might be repetitive of other ideas we have heard this morning.

My name is Matthew T. McGrath of Barnes, Richardson and Colburn appearing on behalf of Florida Citrus Mutual. Mr. McKown is unable to be present due to the annual meeting scheduled in Florida today.

As a little background, the Florida citrus industry accounts for one-third of total farm receipts in the State of Florida, with 16,000 active growers and 38 citrus processing firms. The total estimated direct and indirect employment in the industry is 173,000 people. The industry is extremely import sensitive, having recently faced various import problems that adversely affected the U.S. pricing structure for citrus products and restrained the growers' ability to meet increased costs.

In addition, citrus products have been consistently and repeatedly denied GSP status when applications have been filed, as they are annually. Therefore, it is our position that any free trade area arrangement which may be negotiated between the United States and Israel should recognize the sensitivity of, and exclude from product coverage, fresh citrus, and particularly frozen citrus juices and fresh grapefruit.

FCM does not oppose the free trade area proposal under consideration. We have supported similar programs aimed toward liberalizing international trade relationships and we testified in support of the GSP and Caribbean Basin programs, as long as appropriate safeguards were built into those programs to avoid adverse consequences to U.S. industries. However, we believe that duty-free arrangements for citrus imports under the free trade area would disrupt pricing patterns in a market where a delicate balance between tariffs and prices has been maintained over the years.

As background to these concerns, I note that there have been significant changes and growth in world citrus production in the last decade. Substantial increases in orange production have occurred in the Mediterranean basin, where citrus products enjoy preferential tariff treatment in the European communities.

In Brazil, frozen concentrated orange juice production has exhibited a very high growth rate, and in Mexico orange production has increased 32 percent in the last 5 years. Over the long term this world expansion has contributed to the downward trend in the on-tree value of the Florida citrus crop. Despite increased grower costs associated with recent freezes, the real value of the crop and returns on investments have declined over this period.

The Florida grapefruit industry has also suffered in recent years, with the on-tree value of Florida's grapefruit crop for processing declining to the point where, in the 1982–83 season, it was below the cost of production. Duty-free treatment for this product would be particularly damaging since Israel was the second largest producer of grapefruit in the world during the 1982–83 season.

I would like to point out that the current tariff rates have not acted as an impediment during times of domestic shortages and the tariff has helped to prevent serious damage to the domestic citrus industry. The significance of a reduction in this tariff is demonstrated by the historical relationship between import volumes and the price spread between Florida and imported orange solids; as underpricing by imports expands, a direct relationship is seen in the increase in import volumes.

A free trade area arrangement would establish the United States as the only duty-free citrus market in the world and we believe that citrus supplies would be diverted to this duty-free market. We have submitted information showing that data of the U.S. Department of Agriculture indicates that Israel's shipments of frozen concentrated orange juice to the European markets where it enjoys preferential tariff treatment appear to exceed not only its total domestic production, but also its total supply including its own imports for blending.

Therefore, we are concerned that Brazilian product may find a similar preferential path to potentially duty-free U.S. markets. Even if this third country production does not find its way into the free trade area channels, and even if strict country origin certification requirements reduce the potential for transshipments, Israel's production is substantial and a greater percentage of it could be sent to the United States with the substitution of Brazilian imports in its own domestic markets.

Finally, we don't believe that the Florida citrus industry can anticipate any substantial export growth from the coverage of citrus products in this program. The Israeli market is small and already adequately served by indigenous supplies. The USDA has confirmed that the primary U.S. export benefit is expected in the area of industrial products with a probable increase in Israeli horticultural product exports to the United States.

In summary, Florida Citrus Mutual believes that the import and price-sensistive citrus industry can only be detrimentally affected by duty-free treatment of imports from a developed citrus-producing country. The basic purpose of the free trade area is to provide for mutual and reciprocal benefits and we don't believe that that could be accomplished with this program.

The present citrus tariff structure has functioned successfully and should remain intact. Therefore FCM asks that any proposed free trade area exclude citrus products from its coverage. Thank you very much.

Mr. Russo [presiding]. Thank you, gentlemen.

[The prepared statement of Mr. McKown follows:]

STATEMENT OF BOBBY F. MCKOWN, EXECUTIVE VICE PRESIDENT, FLORIDA CITRUS MUTUAL

Mr. Chairman and members of the Committee I am Bobby F. McKown, Executive Vice President of Florida Citrus Mutual, which is located in Lakeland, Florida. FCM is a voluntary cooperative association of citrus growers and processors which represents more than 90 percent of the orange, grapefruit and other citrus growers of Florida. These comments are also offered on behalf of the State of Florida Department of Citrus and the Florida Citrus Processors Association. We appreciate the opportunity to testify today concerning our industry's views on the proposed Free Trade Area between the United States and Israel.

The U.S. citrus industry is extremely import sensitive, and has recently confronted various import problems which have adversely affected the U.S. pricing structure for citrus products and impacted on our growers' ability to generate the returns necessary to meet increased costs. For this reason, we feel that any Free Trade Area arrangements which may be negotiated between the United States and Israel should recognize the sensitivity of, and exclude from product coverage, fresh citrus and citrus products. We have indicated in our detailed presentations before the International Trade Commission and the Trade Policy Staff Committee, those products which FCM feels should be excluded from such an arrangement. Of particular concern are fresh grapefruit and frozen concentrated orange and grapefruit juices.

We have stated consistently that we are not opposed to either the concept of Free Trade Areas or this particular proposal. FCM has established a record of support for programs designed to assist less developed trading partners of the United States, including the GSP and CBI programs, as long as appropriate safeguards have been constructed to avoid serious adverse consequences to the domestic industry.

However, duty-free arrangements for citrus imports would disrupt pricing patterns in a market where a delicate balance between tariffs and prices has been maintained over the years. In addition, we are concerned about the likelihood of distortions in historic international trading relationships and markets, because of the presence and influence of the prodigious Brazilian industry. We feel that duty-free treatment for imports of these citrus products would serve only to disrupt U.S. markets, without providing reciprocal benefits to U.S. citrus products in export markets.

The International Trade Commission determined in 1983 that subsidized imports of FCOJ from Brazil caused a threat of material injury to the United States growers and processors of FCOJ. In addition, because of the U.S. industry's sensitivity, the United

States Trade Representative has repeatedly turned down petitions to add import-sensitive citrus products to the list of eligible articles under the Generalized System of Preferences. We strongly believe that duty-free eligibility for the developed citrus industry of one of our trading partners would be contrary to these consistent and appropriate rejections of GSP petitions covering import-sensitive citrus products.

The Florida Citrus Industry and the Economic Significance of the Present Tariff

The Florida citrus industry accounts for one-third of total farm receipts in the State of Florida, with 16,000 active growers and 38 citrus processing firms. The total estimated direct and indirect employment of the industry is 173,000 people. We have provided extensive data to the U.S. International Trade Commission concerning the size of the citrus industry and its importance to the Florida and United States economies.

There have been significant changes during the past decade in world citrus production and trade. These changes have not only increased direct import competition in U.S. markets, but reduced or seriously affected U.S. export sales.

With respect to orange production, substantial growth has been exhibited in the Mediterranean Basin, Mexico and Brazil, absolutely and relative to production of both fruit for fresh consumption and processed citrus. Most notably, Brazilian production has expanded and its exports have displaced U.S. sales both at home and abroad. Its FCOJ production increased almost 60-fold from 1965 through 1983, rising from 11 million to over 600 million gallons. Brazil's export performance in third country markets grew similarly.

Increasing production of oranges in the Mediterranean Basin reflects preferential tariff treatment by the European Communities for imports from Mediterranean countries, at the expense of United States exports to Europe. In addition, Mexico's production of oranges has increased 32 percent from 1978-79 to 1981-82.

This substantial growth in world production has affected the on-tree value of the Florida citrus crop, which has experienced a downward trend over the past four growing seasons, despite an unprecedented three damaging frosts in the last four years. Because of the increased costs incurred in recent years by Florida growers, the real value and returns on investment have declined over this period.

Likewise, with respect to grapefruit production, the Florida industry is highly sensitive to the adverse influences on pricing which would result from the introduction of duty-free imports. As shown in the attached table, the on-tree value of Florida's grapefruit for processing declined drastically since the 1979-80 season. In 1982-83, the on-tree price was less than the cost of production.

In light of this alarmingly weakened condition of the United States grapefruit growers, duty-free treatment for imports from Israel poses a serious threat. Israel is the second largest producer of grapefruit in the world, accounting for 13.8 percent of total production in the 1982-83 season. Furthermore, this substantial production is well-positioned to take immediate advantage of duty-free treatment in the U.S. under a Free Trade Area, since Israel has exported 45 percent of its grapefruit crop over the last five years. With U.S. on-tree and f.o.b. grapefruit values at such drastically depressed levels, the influx of additional grapefruit supplies from Israel could retard U.S. growers' efforts to return to a viable economic position.

The U.S. tariff structure for citrus products has historically been effective in preventing considerable damage to the U.S. industry while permitting additional imported supplies during times of domestic shortages. The specific rates of duty now applied to concentrated juices and fresh citrus fruit have, of course, eroded over time with inflation and rising values due to increased costs. While the incidence of the tariff has decreased, our industry faces increasing competition in export markets due to increased foreign production (sometimes reflecting subsidization), restrictive trade practices, and the preferential tariff arrangements which benefit Mediterranean citrus producers over the United States industry in European markets.

The importance of maintaining the current tariff rates is amply demonstrated by the relationship between import volumes and the price spread between Florida and Brazilian orange solids. As the price differential between the imported and domestic product increases from 5 to 10 cents per pound of orange solids, imports have increased by an average of 2.2 million gallons for every 1 cent increase in the price spread. As price spreads increase, so does the volume of imports. Therefore, duty-free treatment which increases the orange solids price spread will likely increase the volume of imports, as well as reduce the market price for orange solids.

While this correlation has been studied most closely with respect to Brazilian imports, a similar correlation must be expected with the introduction of any additional product which benefits from duty-free treatment. The impact of the price spread encouraged by duty-free treatment for Caribbean-sourced citrus (under the Caribbean Basin Initiative) will undoubtedly appear as those countries reach higher levels of development. However, the products from Israel's developed citrus industry must be expected to have an immediate impact on prices if unlimited duty-free treatment is granted.

Further Implications of the Proposed Free Trade Area

In addition to the likely impact of duty-free treatment on prices and import volumes, we are concerned about the market dynamics of this particular proposed Free Trade Area, and its likely results.

Duty-free treatment for frozen concentrated orange juice will result in a savings to the importer of approximately $487 per metric ton of FCOJ. Since FCOJ prices in the United States will react and move toward the lowest common denominator, this 34 cent-per-pound-of-solids savings will have a substantial downward influence on the returns on sales to Florida growers of oranges for processing, which was approximately $1.10 per pound of solids in 1982-83.

A Free Trade Area arrangement would establish the United States as the only major duty-free citrus market in the world, while relatively high duties prevail elsewhere, and citrus supplies would be diverted to this duty-free market. The attached data of the U.S. Department of Agriculture indicates that Israel's shipments of FCOJ to the European markets, where it enjoys preferential tariff treatment, appear to exceed not only its own production, but also its total supply, including imports. Therefore, we are concerned that Brazilian FCOJ which may be reaching Europe through a preferential tariff country, will find a similar path to potentially duty-free U.S. markets. Even if this third country production does not find its way into the Free Trade Area channels, Israel's own domestic production is substantial, and a greater percentage of it could be exported to the U.S. with the substitution of Brazilian imports in its home market. The United States, as the only duty-free market for a price-sensitive commodity, would act as a magnet to attract product on which a savings of $487 per metric ton could be realized, and which would substantially under price the domestic product.

This would not encourage mutual trade; it would only disrupt prices and directly and immediately reduce returns to U.S. growers. Although the possibility of transshipment of third country products through the Free Trade Area beneficiary might be addressed by strict country of origin certification requirements, such certification would not eliminate the trade distortion caused by substitution of Brazilian for Israeli product in Israel's home market. This possibility may become more immediate as Israel's domestic citrus output encounters greater competition with subsidized products in the European markets. Again, a Free Trade Area with the United States would act as a duty-free "magnet."

Furthermore, our industry cannot anticipate any substantial benefit from duty-free treatment for our citrus exports to Israel. Testimony before this Subcommittee on May 22, 1984, on behalf of the U.S. Department of Agriculture, confirmed that the Free Trade Area would primarily benefit U.S. exports of industrial products, while U.S. imports of horticultural products from Israel would be expected to increase. The Israeli citrus market is more than adequately served by indigenous and imported Brazilian citrus products, with little growth anticipated, even with the enactment of duty-free treatment for U.S. products.

Conclusion

Florida Citrus Mutual believes that the import and price-sensitive citrus industry can only be detrimentally affected by duty-free treatment of imports from a developed citrus-producing country. The basic purpose of Free Trade Area arrangements would not be served by a duty-free arrangement which disproportionately benefits only one of the participants. The present citrus tariff structure has functioned successfully and should remain intact. Therefore, FCM and the Florida citrus industry request that any proposed Free Trade Area exclude fresh and processed citrus from its product coverage.

We would be happy to provide any additional information and respond to questions from the Subcommittee.

Florida processed grapefruit average on-tree prices, by district and variety, 1971-72 through 1982-83 seasons.

Season	White Seedless		Pink Seedless	
	Interior	Indian River	Interior	Indian River
	$/1-3/5 bu. box			
1971-72	1.88	1.88	1.42	1.42
1972-73	1.52	1.52	1.01	1.01
1973-74	1.14	1.14	.53	.53
1974-75	.86	.75	.35	.19
1975-76	.85	.70	.40	.25
1976-77	1.17	1.16	.72	.72
1977-78	1.35	1.30	.75	.70
1978-79	2.01	1.93	1.29	1.30
1979-80	2.94	2.92	2.26	2.09
1980-81	2.96	2.94	1.92	1.70
1981-82	1.55	1.45	.59	.38
1982-83	.24	.11	.15	.25

SOURCE: Florida Crop and Livestock Reporting Service

FCOJ AVAILABILITY IN ISRAEL

Year	Production	Israeli Imports from Brazil	Total Availability
	(Metric Tons)		
1979	16,700	10,300	27,000
1980	21,200	7,800	29,000
1981	14,700	12,200	26,900
1982	39,100	5,900	45,000
Ave.79-82	22,925	9,050	31,975

Source: U.S. Dept. of Agriculture, Foreign Agricultural Service

TABLE 13

ISRAEL: EXPORTS OF FCOJ

Year	To EC	To other Western Europe*/	Total
	(Metric Tons)		
1979	68,900	5,600	74,500
1980	66,700	4,400	71,100
1981	70,300	4,500	74,800
1982	77,800	5,000	82,800
Ave. 79-82	70,925	4,875	75,800

*/ Includes Norway, Finland, Sweden, Austria and Switzerland

Source: U.S. Dept. of Agriculture, Foreign Agricultural Service

Mr. Russo. Next witness is Robert Keeney, United Fresh Fruit and Vegetable Association. You may proceed as you wish.

STATEMENT OF ROBERT C. KEENEY, VICE PRESIDENT, GOVERNMENT RELATIONS, UNITED FRESH FRUIT AND VEGETABLE ASSOCIATION

Mr. Keeney. I am Bob Keeney, vice president of the United Fresh Fruit and Fresh Vegetable Association. Our membership is comprised of growers, shippers, wholesalers, and retailers of fresh produce commodities. Our members handle over 80 percent of the Fresh Fruit and Vegetable Association. Our membership is

We appreciate the opportunity to discuss our position on the United States-Israel free trade agreement and H.R. 5377. United has taken the position in support of the agreement so long as trade sensitive fresh fruit and vegetable commodities are excluded. We believe that duty free status for all Israeli fruits and vegetables could adversely affect several segments of our industry without providing a significant opportunity for increased trade for our product in Israel.

Apparently the administration agrees that there is very little potential for increased trade. Alan Tracy, Deputy Under Secretary of USDA. in testimony before this subcommittee stated:

> That with regard to its trade impact on agriculture, it appears that the free trade area will provide a significant growth potential for U.S. exports of value added products such as processed green products.

In the same testimony Secretary Tracy said "that the strongest Israeli export potential to this country is in the horticultural area." It is important for the fresh produce industry to realize some gains from such an agreement. The level of exports has been relatively flat during recent years. As a result of this the fruit and vegetable contribution to the U.S. trade deficit amounted to about $300 million in 1983, roughly 1.5 billion of that deficit can be attributed to trade with Israel in fresh fruit and vegetable commodities.

That figure is likely to increase dramatically once a free trade agreement is in place. Due to an over abundant supply of fruits and vegetables, Israel is in the position of having to export many of its commodities to world markets. As an example, during 1981–82, Israel was able to export 35 percent of its melons, 46 percent of its oranges, 38 percent of its grapefruit, 41 percent of its lemons, 82 percent of its avocados and 21 percent of its carrots.

At the present time much of the tonnage goes to European markets. We fear that once Spain and Portugal, countries which produce a full range of fruits and vegetables, join the EEC it is likely that those European markets for Israel will diminish. If the free trade agreement with the United States is in place, Israel will target this country as its chief market for horticultural commodities.

I conclude in the hope that the subcommittee will specifically exclude import sensitive fresh fruit and vegetable commodities from H.R. 5377. Thank you.

[The prepared statement follows:]

STATEMENT OF ROBERT C. KEENEY, VICE PRESIDENT, GOVERNMENT RELATIONS, UNITED FRESH FRUIT AND VEGETABLE ASSOCIATION

The United Fresh Fruit and Vegetable Assocation (United) is the national trade association of the fresh produce industry. Our members handle over 80 percent of the fresh fruits and vegetables commercially marketed—A $35 billion industry. Members of the association are comprised of growers, shippers, wholesalers, retailers and others involved in marketing fresh produce commodities.

United appreciates the opportunity to discuss our position on the U.S./Israel Free Trade Agreement and H.R. 5377 which gives the President of the United States authority to enter into an agreement with Israel eliminating restrictions and tariffs between the two countries.

United has taken the position in opposition to the U.S./Israel Free Trade Agreement so long as trade sensitive fresh fruit and vegetable commodities are included in the agreement. We recognize that other industries, both in agricultural and non-agricultural areas, may benefit from the agreement. We also recognize that the United States may politically benefit from the arrangement. However, we are of the opinion that duty free status for all Israeli fruits and vegetables could adversely affect several segments of our industry without providing a significant opportunity for increased trade for our products in Israel.

In fact, apparently the Administration agrees that there is very little potential for increased trade. Alan Tracy, Deputy Under Secretary, USDA, in testimony before this subcommittee, stated that, "With regard to its trade impact on agriculture, it appears that the free trade area would provide a significant growth potential for U.S. exports of value-added products, such as process grain products . . ." In the same testimony, Secretary Tracy said that the "strongest Israeli export potential is in the horticultural area." In other words, the U.S. fresh fruit and vegetable industry has everything to lose yet nothing to gain from the agreement.

The General Agreement on Tariffs and Trade (GATT) permits free trade areas as a deviation from Most Favored Nation Treatment so long as the agreement meets certain criteria. The most important of the criteria is that the free trade area must cover "substantially all trade." Therefore, the exclusion that we are seeking for import sensitive fresh produce commodities and the protections for producers of those commodities apparently would not be permitted by the GATT.

For this reason, among others, we hope the Administration will give serious consideration as to whether a a free trade agreement type of approach is in the best interests of the United States.

The industry is not afraid of increased trade with Israel, so long as vulnerable segments of the industry are specifically protected within the agreement from unfair competition. In addition, it is important for the fresh fruit and vegetable industry to realize some export gains from such an agreement. Exports of fruit and vegetables worldwide have been relatively flat during the past few years. As a result of this, the fruit and vegetable contribution to the U.S. trade deficit amounted to about $300 million in 1983. Roughly $1.5 million of that deficit can be attributed to trade with Israel. That figure is likely to increase dramatically once the free trade agreement is in place.

Again, I want to emphasize that there appears to be no significant opportunity for the U.S. fresh fruit and vegetable industry to market its products in Israel. Last year one metric ton of fresh produce in the form of beans was exported at a value of only $774. On the other hand, we imported from Israel in 1983 about 1,600 metric tons valued at approximately $1.5 million.

The reasons for the lack of trade with Israel are many but basic to those is the fact that the country is practically self-sufficient in horticultural production.

Our membership keeps coming back to the question: What benefit will the U.S. fresh fruit and vegetable industry realize from this agreement? The fact of the matter is that clearly the agreement will result in increased imports, many of which could threaten import sensitive segments of the industry.

Due to an over-abundant supply, Israel is in the position of having to export many of its fresh fruits and vegetables to world markets. In fact, during 1981-1982, 66 percent of its celery was exported; 35 percent of its melons; 46 percent of its oranges; 38 percent of its grapefruit; 41 percent of its lemons; 82 percent ot its avocadoes; and 21 percent of its carrots. At the present time, much of the tonnage goes to European markets. However, once Spain and Portugal join the EEC, countries which produce a full range of fruits and vegetables, it is likely that those European markets for Israel will diminish. If the free trade agreement with the U.S. is in place, Israel would consider this country its chief market for horticultural commodities.

I conclude in the hope that the subcommittee will specifically exclude import sensitive fresh fruit and vegetable commodities from H.R. 5377 and the U.S./Israel Free Trade Agreement. Mr. Chairman, thank you for allowing us to present our views on this most important subject.

Chairman GIBBONS. Mr. Hume.

STATEMENT OF WILLIAM J. HUME, VICE PRESIDENT AND DIRECTOR, BASIC AMERICAN FOOD CO., AND CHAIRMAN AND CHIEF EXECUTIVE OFFICER, BASIC VEGETABLE PRODUCTS, INC., ON BEHALF OF THE AMERICAN DEHYDRATED ONION & GARLIC ASSOCIATION

Mr. HUME. Thank you, Mr. Chairman. I will attempt to keep my rewritten testimony brief.

We are concerned about the impact of imports on the dehydrated onion and garlic industry. We have 5,500 Hispanic American workers who compose our work force and live in small towns where our factories are the major employer.

Basically we have four concerns in terms of the impact on our industry of imports.

One, the industry has already been hurt by imports. The summary of the trade and tariff information published by the U.S. International Trade Commission, February 1984, stated on page 4, "during 1978 to 1982 apparent U.S. consumption of other dried vegetables trended downward from 146 million pounds to 125 million pounds in 1982."

A major factor in this decrease is the replacement of onion and garlic flour by imported onion and garlic oil. Oil is a flavoring substitute for pure onion and garlic and is produced primarily in Mexico or Europe. The dehydrated onion and garlic industry responded to the decreased volume by producing less onion and garlic flour. The overall volume decrease resulted in the industry currently having excess capacity.

The industry currently exports to the EEC countries. It is our understanding that Spain and Portugal will be permitted entrance into the EEC within 2 years. At that time their dehydrated onion and garlic products will be able to enter the EEC without paying tariffs and that will adversely affect our sales to the EEC. Thus, in 2 years' time we can project a further decrease in volume and a further excess capacity situation in the United States.

Currently the U.S. onion and garlic exports have tariffs levied against them in the EEC of 16.6 percent on dehydrated onions and 16 percent on dehydrated garlic.

Two, a serious reservation that we have about the free-trade agreement with Israel is "will Israel be used as a conduit for dehydrated onion and garlic from other countries?" Egypt is currently a major competitor and we have serious concerns about the possibility of Egyptian onions arriving in Israel in unmarked cartons and being transshipped to the United States without paying duty.

We are also concerned that if a free-trade agreement is established with Israel then most-favored-nation treaties that we have with other countries will require the United States to grant the same tariff treatment that we have granted to Israel; that is, no tariffs to Israel on onion and garlic then no tariffs to most-favored-nation countries on onion and garlic. We have a most-favored-nation treaty with Romania and they are a major producer of dehydrated onion and garlic.

Three, an additional significant concern we have with allowing a free-trade agreement with Israel is will the free-trade agreement stop with Israel? Our concern is that once a free-trade agreement is established, other countries will request similar free-trade agreements and it will be difficult to refuse.

A major current competitor, Egypt, would more than likely request similar treatment.

Four, an issue underlying the proposed agreement is that of free trade versus fair trade. The U.S. industry is not supported by the Government. We contract with growers for their crops; we negotiate with the union for plant wages and we pay unskilled field labor wage rates beginning at $7 per hour.

In Israel, onion and garlic are grown and processed largely on collective farms. The farmworkers are provided free housing, free food, and free expert child care. All of which point to the fact that the kibbutzim are significantly underwritten. For reference in terms of operation of the kibbutz, please see the following: "The Other Society," by Dr. Darin Drakbkin. "Growth Patterns of the Kibbutz Economy," by Hyem Kanovosky. "The Economy of the Israeli Kibbutz," by Eli Ellahugh Kanovosky.

Dr. Drakbkin makes a statement:

> Investment planning in the kibbutz is made easier by the fact that investment capital comes from the Israel government, the Jewish Agency, the Knesset and the National Kibbutz Movement.

The question we ask is should the U.S. Government support a free trade agreement with a country that subsidizes its agricultural production. We see no benefit and we see considerable harm to the U.S. dehydrated onion and garlic industry if their products are included in a free trade agreement with Israel.

We recommend, therefore, that dehydrated onion and garlic be excluded from any free trade agreement with Israel.

At this time I would like to specifically request that the rest of my statement be submitted for the record. This statement will include a letter from the Cannery Workers' Union, the Teamsters, the Vegetable Bargaining Association of California and a more formal statement which has been submitted to the committee.

Mr. DOWNEY [presiding]. Without objection, that is so ordered.

[The prepared statement follows:]

STATEMENT OF WILLIAM J. HUME, CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER, BASIC VEGETABLE PRODUCTS, INC., ON BEHALF OF THE AMERICAN DEHYDRATED ONION AND GARLIC ASSOCIATION

Good morning! I am Jerry Hume, Chairman of the Board and Chief Executive Officer of Basic Vegetable Products, a major dehydrater of onion and garlic in California. I am appearing on behalf of the American Dehydrated Onion & Garlic Association to ask for your support in exempting onion and garlic products from the Free Trade Agreement with Israel.

The American Dehydrated Onion & Garlic Association is comprised of the four leading U.S. manufacturing companies which specialize in the production of dehydrated onions and dehydrated garlic. Member firms operate six plants located in relatively small rural communities—one in Nevada and others in central California.

The dehydrated onion and garlic industry is relatively small but it has a significant economic impact in the rural areas where it is concentrated in central California and Nevada. All of ADOGA's farmer suppliers of raw product are under contract. Growers in Oregon, Nevada, and California need a contract crop. Good farmers make money and they can bank the crop.

According to the U.S. Department of Agriculture in recent years 30,000 acres of onions for processing have been planted and harvested with an annual farm value of up to $56,000,000. 15,000 acres of garlic have been planted with an annual value of about $30,000,000.

Over the years the members of ADOGA have invested substantial quantities of money in improving onion and garlic seed varieties to provide greater yields to the farmer. This has enabled farmers to make money in the face of increasing costs while keeping unit costs to the processor at very stable levels. The relationship between the growers and the processors has been a very positive one in California.

The Vegetable Bargaining Association of California who represents growers in Monterey County and the central valley of California, has written in opposition to the Free Trade Agreement with Israel and I would like to submit that letter as a part of my testimony at this time.

The dehydrated onion and garlic industry employs between 3,000 and 4,000 hourly people at their manufacturing and another 500 to 1,000 people in their field operations.

The companies are unionized and represented by Teamster locals. I'd like to read a letter from each of the Teamster locals at this time and submit these letters for the records. These Teamster locals represent approximately 17,000 people in California. Local 857 represents 5,000 and local 890 represents 12,000. They are worried about the adverse impact of a Free Trade Agreement on the jobs of the people they represent.

Our factories have been located in rural country towns and in most instances are the major employer in the town. In King City for example the town has a population of 5,000 and when running at full capacity the plant employs 800 people. It is consequently a major source of employment for the town and for the surrounding area.

Let me describe our workforce. The work force is Mexican American. In most cases unskilled. The recently signed three year contract provided for entry level wage rates of $9.08 plus fringe benefits. The companies provide a living for a large number of families. If production volume were to be reduced because domestic volume was replaced by foreign volume, these people would work fewer hours or perhaps not at all. The only alternative in the towns where they live is to ask for public assistance.

The industry has already been hurt by imports. The summary of trade and tariff information published by the United States International Trade Commission in February 1984 on page 40 stated "During 1978 to 1982 apparent U.S. consumption of other dried vegetables trended downwards from 148 million pounds to 125 million pounds in 1982." A major factor in this decrease in volume is replacement of onion and garlic flour by imported oleo resins. Oleo resins are a flavoring substitute for pure onion and/or garlic and they are produced primarily in Mexico and in Europe. The industry responded to the decreased volume by producing less onion and garlic flour, but its overall volume has decreased and as a result the industry currently has excess capacity.

It is our understanding that Spain and Portugal will be permitted entrance into the E.E.C. within two years. At that time their dehydrated onion and garlic products will be able to enter the E.E.C. without paying tariffs and that will adversely affect our sales to the E.E.C.

Currently United States onion and garlic exports have tariffs levied against them in the following countries:

Country	Dehydrated onions	Dehydrated garlic
European Community (percent)	16.8	16
United Kingdom		
West Germany		
Netherlands		
Japan (percent)	15	15
Canada (percent)	10	10
Sweden (percent)	3	Free
Australia (per kilo)	$0.40	$0.40

Thus, in two years we can project a decrease in European volume. These are ADOGA's major export markets. Why not focus on reducing tariffs in these countries?

Free trade with Israel provides no special benefits for the onion and garlic industry. It is a one sided affair because of the size of the Israel market.

A significant concern that we have with following a free trade area with Israel is "will it stop with Israel?" Our concern is that once a Free Trade Agreement is established with Israel requests from other countries for free trade areas will be much more difficult to refuse. A major current competitor of ours in Europe is Egypt. If the U.S. has a free trade agreement with Israel I can foresee Egypt requesting similar treatment. Another question we have is if Israel is granted a free trade status, how can Egyptian products be prohibited from finding their way to the United States using Israel as a conduit.

Testimony given by Congressman Bill Thomas of California cited the fact that in 1983 the United States imported $88,000 of pistachios from Israel and in 1981 imported raisins from Israel. The question was asked "is Israel a producer of these items or were they trans-shipped?" Other countries in Asia minor are major producers of these goods. These shipments raise the question will the trade benefit allowed to Israel be shifted to other countries that are not parties to a free trade agreement?

Our industry has been called on in times of war to provide the government with low cost, non perishable, high quality light weight food stuffs. Our industry was a major supplier during World War II and subsequent wars in supplying the armed services.

Basic Vegetable Products won the Army-Navy E for excellence during World War II. To jeopardize that capacity is in my estimation not to the long term benefit of the United States.

The United States dehydrated onion and garlic industry has been protected by tariffs in the past because foreign producers have been characterized by countries such as Bulgaria, Rumania, China who have used dehydrated vegetables to obtain hard currency without consideration of the costs of production. Israel's industry is heavily subsidized. Israel's onions and garlic are grown and processed largely on collective farms, kibbutzim, which involve about 6% of the total population. Farm workers are provided with free housing, free food, free expert child care and other amenities by the Israel government. In contrast the U.S. industry is completely free of government supports of any kind. Should the United States support the extension of free trade in a commodity which is subsidized by a government?

We see no benefits and we see considerable harm to the U.S. dehydrated onion and garlic industry if their products are included in a Free Trade Agreement with Israel. The Association recommends, therefore, that to avoid causing serious injury to this relatively small agricultural industry dehydrated onion and dehydrated garlic products be excluded from any Free Trade Agreement with Israel.

[Attachments]

CANNERY WORKERS UNION,
Sacramento, CA, June 1, 1984.

Hon. Mr. BROCK,
Ambassador, U.S. Trade Representative,
Washington, D.C.

DEAR AMBASSADOR BROCK: Teamsters Local No. 857 represents the workers at the Vacaville, California, facility of Basic American Foods.

Reducing or lifting the tariff on the onions and garlic grown and processed in Israel will be very detrimental to the onion and garlic dehydration industry in California.

Please consider this a request on behalf of our members (500) who may lose their jobs because of the imports from Israel and other nations.

Thank you for your consideration.

Very truly yours,

ALEX LUSCUTOFF, *Secretary-Treasurer.*

BEESON, TAYER & SILBERT AND
ROSENTHAL & LEFF, INC.,
San Francisco, CA, May 30, 1984.

Ambassador WILLIAM BROCK,
U.S. Trade Representative,
Washington, DC.

DEAR AMBASSADOR BROCK: We are the attorneys for Teamster Local Unions in California who represent employees in the dehydrated onion and garlic industry. A collective bargaining agreement has just been concluded in that industry covering the wages and working conditions of approximately 4,500 employees.

It is our understanding that you are contemplating the inclusion of dehydrated products from Israel in a free-trade agreement. We are aware of the statement of the American Dehydrated Onion and Garlic Association made at public hearings on this matter on February 6, 1984, and we concur in the comments made by that association. Furthermore, we are greatly concerned that such an agreement would have a serious and deleterious effect on the employees represented by the Unions we represent and could result in a substantial reduction in employment in this industry.

On behalf of these Unions, therefore, we urge that a free-trade area agreement with Israel regarding these dehydrated products not be entered into.

Sincerely,

DONALD S. TAYER.

VEGETABLE BARGAINING ASSOCIATION OF CALIFORNIA,
Greenfield, CA, March 12, 1984.

Hon. ROBERT DOLE,
U.S. Senate,
Washington, DC.

DEAR SENATOR DOLE: The above Association, comprised of small growers and family-sized farms, strongly opposes certain agriculture products in any free trade area agreement with Israel. Growers in the Salinas Valley area produce vegetables for dehydration; specifically, onions, garlic and chili peppers. Inasmuch as growers in this area pay the highest farm labor wages in the world, any reduction in their ability to grow their crop profitably would have a serious adverse affect on both growers and workers alike.

It is our information, Israel with its own vegetable products and vegetable dehydration facilities has the capacity to produce more than their own domestic requirements and their purchase of U.S. products has been negligible. The elimination of Israeli tariffs or any other country on these products would not expand the market for American grown and processed products.

The elimination of U.S. tariffs on imports of dehydrated onions, garlic and peppers would open up an economically attractive American market. The American grown and dehydrated product has proven that ample supplies are grown and can supply the demand for these items.

If a free trade agreement is reached with Israel, it is easily apparent that Israeli imports can place upon our markets a product at less than domestic cost. This would cause serious injury to growing and dehydrating industry, from which there may be no recovery.

Members of this Association can conceive of pressures mounting on U.S. negotiators to open other free trade agreements with other favored nations. Even if this were not allowed in the future, granting Israel a free trade in these commodities could cause other nations to route through agreements with Israel produce which would then become an additional serious implication to our domestic industry.

Presently, the American consumer has reaped no benefits from lower import price in this commodity which, generally, are not issued in retail items and, consequently, provide no price savings to U.S. consumers.

The Vegetable Bargaining Assoication of California strongly recommends that to avoid causing serious injury to this specialized agriculture industry, dehydrated onions, garlic and pepper products be excluded from any free trade area agreement with Israel or any other country.

Sincerely,

ROBERT S. MILLS, *Manager.*

STATEMENT OF THE AMERICAN DEHYDRATED ONION & GARLIC ASSOCIATION

SUMMARY

The American Dehydrated Onion & Garlic Association is comprised of the four leading U.S. companies which specialize in the dehydration of domestically grown onions and garlic. ADOGA member firms foresee no benefits for their industry and strongly urge the Ways and Means Committee to amend HR5377 so as to exclude ADOGA's products from the proposed free-trade area bilateral trade agreement with Israel for the following reasons:

-- Elimination of Israeli tariffs on these products would effect virtually no change in trade; would not open up an expanded market for American dehydrated onions and dehydrated garlic. Israel has its own vegetable dehydration facilities and her use of additional farm acreage is limited only by the scarcity of water.

-- Elimination of U.S. tariffs on these products would open up the large, attractive American market to imports from Israel— an American market that already has ample supplies of dehydrated onions and dehydrated garlic and excess industrial capacity.

-- Without the U.S. tariffs, heavily subsidized Israeli imports can easily undersell the American products and capture a growing share of the domestic market.

-- In order to attract foreign investment and increase exports, Israel has been advertising her free-duty access to the European Community. It may be reasonably expected that the U.S. will be accorded similar treatment. A Jamaican-Israeli enterprise was recently established to raise winter vegetables and fish in Jamaica to take advantage of the duty-free American market offered under the Caribbean Basin Initiative. Dehydrated vegetables could be the next venture.

-- An overwhelming flood of imports can only be the result of present Administration policy to extend the number of bilateral trade agreements having free-duty areas to other countries around the world. Many of these countries already produce surplus onions and garlic, much more than American farmers, and a growing number have vegetable dehydration facilities.

-- ADOGA member firms cannot compete with imports from low-wage countries or from non-market countries which fix prices for political purposes without regard to costs. Elimination of U.S. tariffs just adds to the existing unfair competition.

-- This relatively small specialized agricultural industry will be seriously injured by such a flood of imports, suffering an injury from which it may never recover. Injury to this industry means not only cutbacks in plant production and unemployed plant workers in rural areas with virtually no other jobs available. It also reduces farm income from two dependable cash crops, creates unemployment among hired farm laborers, Hispanic, uneducated and unskilled, who will swell the local welfare rolls. The injury also is devastating to the economies of the relatively small towns where the plants are located and the workers live. Injury means increased taxpayer expense for unemployment and welfare programs.

-- It is difficult to understand an Administration policy that seeks to encourage U.S. imports creating conditions of unfair competition for a domestic agricultural industry and augments the U.S. recordbreaking trade deficits.

-- Nor is it reasonable to stimulate Israeli agriculture into using more of her desert land and scarce water supplies to produce dehydrated onions and garlic for the United States where domestic supplies are ample and demand for these products has been relatively stable in recent years.

-- Israel is seeking a trade increase in "high-value" commodities where transportation costs are relatively minor. Dehydrated onions and dehydrated garlic hardly qualify in such a category.

-- And, finally, the American consumer reaps no benefits from low-priced imports of these products, which are primarily industrial, used as seasonings in quantities too small in the consumer-size portions to have price savings passed on to consumers.

STATEMENT OF THE AMERICAN DEHYDRATED ONION & GARLIC ASSOCIATION (ADOGA)

The American Dehydrated Onion & Garlic Association (ADOGA) strongly opposes the inclusion of its products in the proposed free-trade area bilateral trade agreement with Israel. ADOGA member firms advise against any U.S. duty-free treatment for their products:

TSUS 140.40 Dehydrated onions
TSUS 140.30 Dehydrated garlic
TSUS 140.65 Onion flour
TSUS 140.60 Garlic flour

Purpose of the Association

The American Dehydrated Onion & Garlic Association is comprised of the four leading U.S. manufacturing companies which specialize in the production of dehydrated onions and dehydrated garlic products. Member firms operate six plants, located in relatively small rural communities, one in Nevada, the others in central California. (Vacaville, King City, Gilroy (2), Turlock in California and Fernley, Nevada) There is one dehydrator with a single plant in Firebaugh, California that is not associated with ADOGA.

The Associaiton was created in 1956 as a nonprofit voluntary organization with headquarters in San Francisco. Its primary purpose was to establish and maintain standards of quality, unify the nomenclature and increase product consumption. Over the years considerable sums have been invested in research areas including improvement in raw product varieties for dehydration, in cultivation practices and packaging.

ADOGA's principal objective has continued to be to improve the quality of the dehydrated product among member firms and to promote product consumption. The consumer has benefitted from consistent high standards of quality domestic products offered by ADOGA member firms.

Description of the Industry

This is a relatively small specialized agricultural industry but it has significant economic impact in the rural areas where it is concentrated in central California and Nevada. The majority of ADOGA's farmer-suppliers of raw product, from 80 to 90 percent under contract, are in California. Supplies of seed are purchased also from Oregon and Arizona farms. According to the U.S. Department of Agriculture, in recent years about 25,000 to 30,000 acres of onions for processing have been planted and harvested annually with an average farm value during the last five years of $59 million (Table 1); with garlic, about 15,000 acres, having a farm value of close to $36 million in 1981 (the latest year the crop was surveyed) (Table 2). That year with a relatively short crop, farmers received an average price of $21.80 per 100 lbs. of garlic sold, primarily to the processors.

In 1983 ADOGA members reported an output of 146.9 million pounds of dehydrated onions and 44,7 million pounds of dehydrated garlic. The purchases of raw products accounted for approximately 80 percent of California's summer onion crop in 1983 and about 50 percent of the California garlic crop in 1981, a poor crop year. (Tables 3 & 4)

Production costs are high in California as member firms report continually rising energy costs, transportation expenses, wages and payrolls. In 1983 3,500 workers were employed in onion processing operations with a payroll of $42 million. Just under 1,000 workers were involved in the garlic operations. That payroll ran over $11.5 million.

The hired farm hands for field work in this industry are unskilled, poorly educated, generally Hispanic workers who know little else besides farm labor. When they lose their jobs, they go on welfare. Prevailing wage rates for hired farm workers in California during the mid-July week in 1983 averaged $4.42 an hour; field work averaged $4.12 an hour. Comparable field work elsewhere in the United States averaged $3.54 and $3.38 an hour, according to the Statistical Reporting Service, USDA.

Dehydrated Onions and dehydrated garlic are primarily industrial products. About 80 percent of the industry's dehydrated output is sold to industrial users: namely, food processors and the food service industry, where the products are used as seasonings or food flavorings. About twenty percent of the output reaches the retail consumer, usually packaged and distributed by spice manufacturers.

Despite rising costs and inflation ADOGA member firms have maintained efficient plant operations and increased their wholesale prices moderately as shown in Tables 5 and 6, compared to the U.S. Bureau of Labor Statistics Producer's Price Index for Processors of Fruits and Vegetables which increased 177 percent since 1967 to 1983. ADOGA's wholesale price rose only 122 percent for onion powder and 110 percent for garlic powder in the same period. (These ADOGA indexes of price ranges were developed solely for this report.)

Consumers Do Not Benefit From Use of the Imported Product

The consumer is usually unaware of the substitution of the imported product for the domestic seasoning in his restaurant meal or in the frozen meat pie, sausage or ketchup purchased in the grocery store.

Nor does the substitution affect the retail sale price to the consumer since such a relatively minute quantity of the seasoning is involved in the unit purchased. The ultimate consumer gains no economic benefit from the foreign imports of dehydrated onions or dehydrated garlic.

Israel's Industry is Heavily Subsidized

Israel's onions and garlic are grown and processed largely on collective farms (kibbutzim), which involve about 6 percent of the total population. The farm workers are provided with free housing, free food, free expert child care and other amenities by the Israeli government. The agricultural industry, despite water limitations, produces twice as much product as is required by Israel's 3.5 million people. Exporting is a necessity.

The marketing and exporting of vegetables, fresh and processed, is handled by a cooperative, the Agricultural Export Co., Ltd. known as Agrexco. Fifty percent of Agrexco shares is owned by the Israeli Ministry of Agriculture. The other fifty percent is owned by Israeli growers. Headquarters are in Tel Aviv and ten branch offices are maintained around the world including one in New York City.

Quoting from a Israeli report, an Economic Research Service specialist from USDA noted the following data concerning the distribution of the Israeli onion crop of 62,000 metric tons in 1982:

Local consumption	28,000 tons (metric)
Direct export	24,600 tons
Local industry	8,600 tons
Dried (dehydrated)	2,700 tons

This is a very small dehydration industry, hardly worth this ADOGA effort but Israel's potential output is much greater, particularly if exporting to the United States would become profitable. The 1982 onion production noted above is twice the volume produced in 1980. The desert acreage available is virtually unlimited. The major restriction on growth of the crop is water.

According to a USDA Foreign Agricultural Service official recently returned from an Israel business trip, Israel's dehydrated onions were selling for approximately 91¢ per pound. He estimated transportation costs to New York at about $400 a metric ton which would add about 18 cents to this price and U.S. duty would add another 26¢, plus another 10¢ for other charges, totalling $1.45 per pound including the duty, and $1.19 per pound excluding the duty. The net prices quoted by ADOGA firms at f.o.b. shipping points range from $1.19 to $1.37 per pound for carload lots. The Israeli product with zero U.S. duty would clearly undersell the American product. Moreover, the Israeli base price can be lowered, if necessary to meet U.S. domestic competition.

Israel's Free-Trade Agreement with the European Community

Israel had proposed the free-trade area to U.S. negotiators three years ago when she was seeking new profitable markets for her products. Israel and the European Community have signed a free-trade agreement covering about 60 percent of their trade. Sensitive items undergo a gradual staged reduction and time extensions of two two-year periods are permitted before reductions begin on import sensitive items. Israel has requested both two year extensions. ADOGA firms feel that this kind of staging spreads out the injury to domestic industry. It does not alleviate it.

U.S. Free Trade Offers to Other Countries are Proliferating

U.S. Trade Representative negotiators will be meeting in May with their Canadian counterparts at Canada's request to discuss free-trade sector possibilities, including agriculture. (Will this put an end to the current potato wars involving dumping in Maine and dumping in British Columbia?)

Bilateral trade with duty-free areas have already been offered to Egypt, to Saudi Arabia, to the ASEAN countries of which only Singapore expressed an active interest.

The proposed bilateral Israeli agreement is already setting a bad precedent for zero duties even before the final agreement is signed. ADOGA members feel it is important to oppose a bad policy before irreparable injury is experienced by the industry.

Unfair Competition with Imports

ADOGA member firms find it virtually impossible to compete with imports from low-wage, low-cost developing countries and from non-market countries such as Mainland China, which fix product prices to suit their own political purposes without regard to cost. This is unfair competition. Nor is there reciprocity usually offered ADOGA's exports to these countries. Israel is not a low-wage country but as demonstrated above, the elimination of the U.S. duty on her dehydrated onions brings the imported price below the price of the domestic product.

Importance of U.S. Tariffs

The U.S. tariff schedules have helped to promote the growth of the dehydration industry over the years by reducing the price gap between domestic and foreign products. There are four U.S. tariff lines applicable to ADOGA's output:

TSUS 140.30	Garlic, dried, desiccated or dehydrated, 35% duty ad valorem
TSUS 140.40	Onions, dried, desiccated or dehydrated MTN-Staged reduction in duty from 35% to 25% by January 1, 1987
TSUS 140.60	Garlic Flour 35% duty ad valorem
TSUS 140.65	Onion Flour 35% duty ad valorem

Following harmonization with the Brussels Nomenclature in 1985, the flour items will be combined with their respective related principals. This will have the effect of reducing the duty on onion flour to 25% by January 1, 1987. (See Appendix for Tariff Schedules of the United States, Schedule I Part.)

ADOGA Has Successfully Opposed GSP List

Since the inception of the Title V program under the Trade Act of 1974, the Generalized System of Preferences (GSP), which offers duty-free treatment for a specified list of articles imported from developing countries, ADOGA has fought successfully during several annual GSP amendments to keep its products off the list. Petitions for including dehydrated onion products and dehydrated garlic products on the GSP had been received from Israel, Egypt, Chile, India, Taiwan, South Korea. All of these countries have dehydration facilities and instead of using the output to feed their hungry populations; all of them wish to earn American dollars.

Tables 7 and 8 show the production of fresh onions and garlic around the world, gathered by the Food and Agricultural Organization of the United Nations. A growing number of these countries have dehydration facilities.

Export competition with them for foreign markets is also becoming more difficult all over the world.

ADOGA's Foreign Trade

Imports of dehydrated onions and dehydrated garlic and including onion flour and garlic flour totalled over close to $661,000 in 1983 (Tables 9-12). This is down somewhat from the previous year as fluctuations in imports appear to move opposite to domestic production. Major suppliers include Mainland China and Canada. There were virtually no imports of these products from Israel.

Imports of onion oil and garlic oil, the esence of onion and garlic flavoring-are also competing for the dehydration industry's market at home. These imports, primarily from Mexico, are also on the GSP list to receive duty-free treatment if imported from developing countries. (Table 13) ADOGA also faces competition from synthetic flavorings about which no data are currently available.

Exports of dehydrated onions and dehydrated garlic excluding onion flour and garlic flour, which are lost in a vegetable flour export classification, totalled $40,756,000 in 1983.

Exports of ADOGA's products had dropped somewhat from the previous year, attributable in part to the continued strength of the U.S. dollar relative to other currencies and the world-wide economic depression. Growing foreign competition is another significant factor. (Tables 14-16) There were minimal quantities of dehydrated garlic shipped to Israel. The bulk of the exports moved to the European Community. Israel fears loss of her fresh fruit and vegetable market there when Spain and Portugal will accede to the Community within the next year or two. This is another reason Israel is under pressure to find new markets for her surplus agriculture. ADOGA firms also face losses from the European Community, which trade now amounts to some $20 million annually.

U.S. Exports to Israel Not Affected by Israeli/EC Agreement

Israel is attempting to pressure the United States into this duty-free agreement with scare tactics about the competitive disadvantages U.S. businesses will face when the European Community will be shipping goods duty-free to Israel by 1987. This may be true of computers or industrial goods, but is meaningless for dehydrated onions and dehydrated garlic. Israel has her own facilities producing surplus quantities for her people. It is extremely unlikely that there will be any Israeli imports of these products from the European Community, or the United States.

U.S. Imports From Israel Are 90% Duty-Free Now But She Wants More

Israel's exports to the United States are already 90 percent duty-free mainly under the Generalized System of Preferences (GSP). Of course, she fears that the program, which is now under consideration for renewal, (it expires January 1, 1985), may drop her eligibility as a "developing country" or change in other ways. Under the duty-free bilateral agreement more products will be duty-free than now under GSP. Dehydrated onions and dehydrated garlic are not on the GSP list.

Some of Israel's fears regarding GSP have been realized. On March 28 Bill Brock, the U.S. Trade Representative, announced amendments to the GSP list that reduces the number of articles with duty-free privilages. The changes affect imports primarily from Taiwan, Mexico, South Korea, Hong Kong, Israel and some other countries. In the future the privilages will be negotiated with countries that reciprocate in opening their own markets to U.S. trade.

Recommendations

ADOGA member firms perceive no benefits from the proposed free-trade bilateral trade agreement with Israel.

Zero duties on Israeli imports from the U.S. will have little impact on trade in dehydrated onions and dehydrated garlic products since Israel has her own dehydration facilities producing surpluses.

Zero duties on Israel exports to the U.S. of dehydrated onions from its fledgling industry may be expected to expand if it becomes profitable. The extent of the growth will be restricted only by water limitations.

The duty-free area bilateral agreement will set a bad precedent. Other countries will want similar concessions and ADOGA members cannot compete with imports from low-wage, low-cost developing countries or from non-market countries which fix prices without regard to cost.

ADOGA member firms have ample capacity and farm acreage to produce for U.S. requirements. It is a peculiar policy to invite imports of these products from Israel, which must use desert land with scarce water, to send the U.S. imports where there are surpluses. The imports from Israel and from other countries which will follow her example will all increase their output in order to send exports to the United States.

The countries involved in the Caribbean Basin Initiative may also be taking advantage of zero duties treatment to enter the U.S. market with dehydrated vegetables.

It is this flood of imports, representing unfair competition in most instances, that will cause serious injury to this relatively small specialized agricultural industry; economic injury not only to the processing plants and their employees but also to the farmer-suppliers and their farm labor as well as impacting negatively upon the rural economies of the small communities where the plants are located and the workers live.

It is a strange policy that stimulates imports at a time when this would serve to increase this nation's serious trade deficits.

ADOGA member firms therefore respectfully recommend to the Ways and Means Committee that HR 5377 be amended limiting the President's blanket authority to negotiate a free-trade area with Israel (and other countries in future legislation) that dehydrated onions and dehydrated garlic products be treated as exceptions to the bilateral trade agreement.

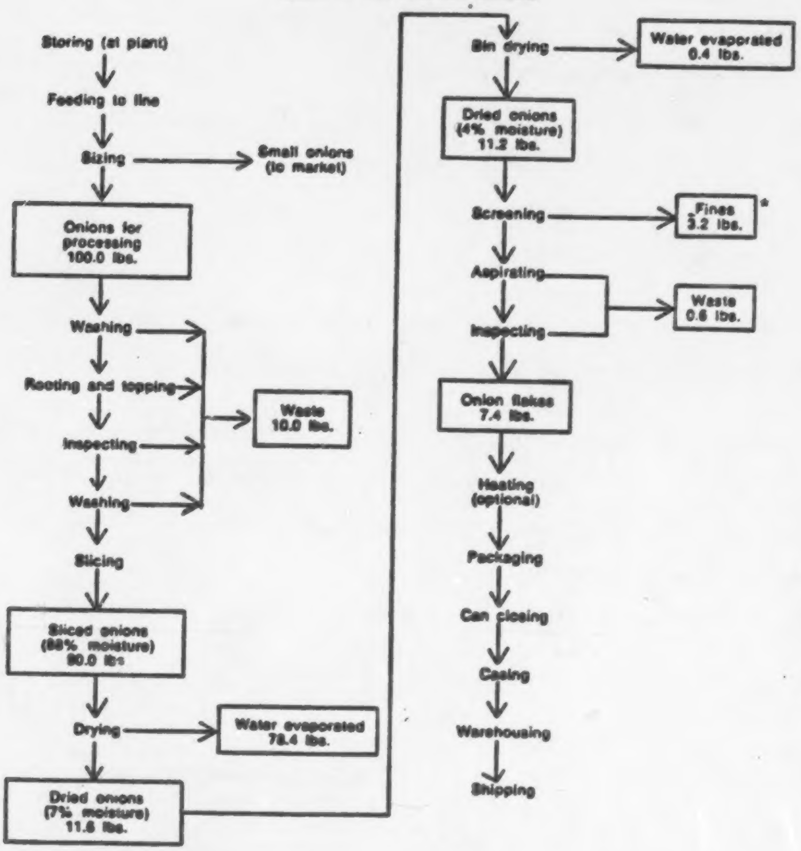
Respectifully submitted,

The American Dehydrated Onion and
Garlic Association

June 13, 1984

Flow Sheet for Onion Dehydration
Shrinkage ratio 6 to 1

Basis — 100 lbs. raw onions

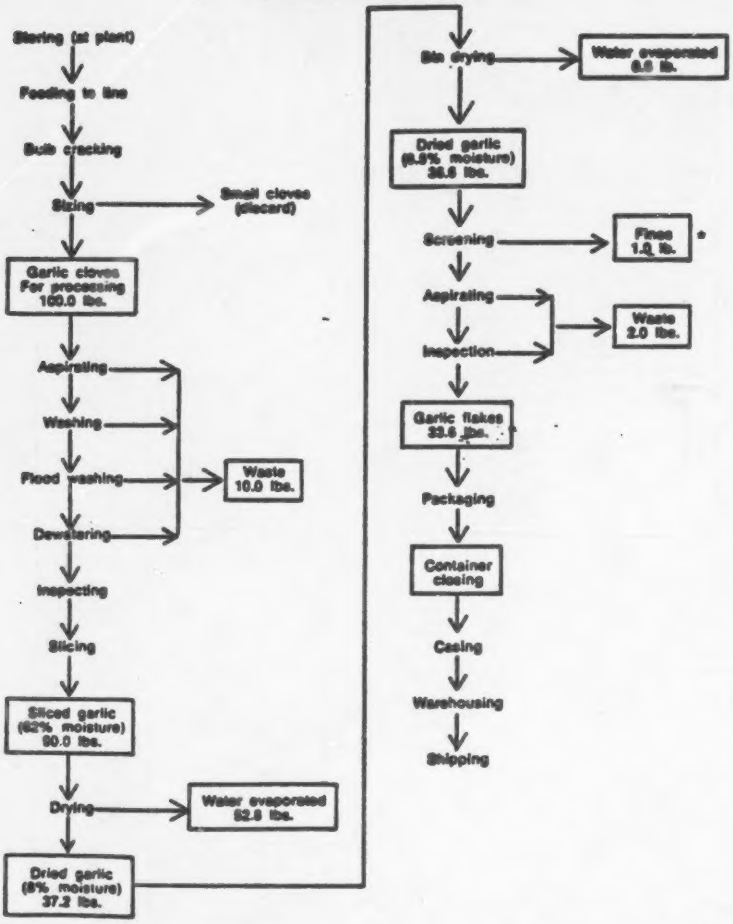

Storing (at plant)
Feeding to line
Sizing
Small onions (to market)
Onions for processing 100.0 lbs.
Washing
Rooting and topping
Inspecting
Washing
Waste 10.0 lbs.
Slicing
Sliced onions (88% moisture) 90.0 lbs
Drying
Water evaporated 78.4 lbs.
Dried onions (7% moisture) 11.6 lbs.
Bin drying
Water evaporated 0.4 lbs.
Dried onions (4% moisture) 11.2 lbs.
Screening
Fines 3.2 lbs. *
Aspirating
Inspecting
Waste 0.6 lbs.
Onion flakes 7.4 lbs.
Heating (optional)
Packaging
Can closing
Casing
Warehousing
Shipping

SOURCE: Based on W. Van Arsdel, Copley and Morgan, eds. Food Dehydration, revised 1973, Vol. II.

* Fines = Flour, which improved technology now produces about 4.5 lbs. according to ADOGA member firms.

Flow Sheet for Garlic Dehydration
Shrinkage ratio 3 to 1

Basis—100 lbs. raw garlic


Storing (at plant)
Feeding to line
Bulb cracking
Sizing
Small cloves (discard)
Garlic cloves For processing 100.0 lbs.
Aspirating
Washing
Flood washing
Dewatering
Waste 10.0 lbs.
Inspecting
Slicing
Sliced garlic (62% moisture) 90.0 lbs.
Drying
Water evaporated 52.8 lbs.
Dried garlic (8% moisture) 37.2 lbs.
Bin drying
Water evaporated 0.6 lb.
Dried garlic (6.5% moisture) 36.6 lbs.
Screening
Fines 1.0 lb. *
Aspirating
Inspection
Waste 2.0 lbs.
Garlic flakes 33.6 lbs.
Packaging
Container closing
Casing
Warehousing
Shipping

Source: Wallace B. Van Arsdel and Michael J. Copley, Eds., Food Dehydration Vol II, 1964, p. 275

* Fines = Flour, which improved technology now produces about 10 to 11 lbs., according to ADOGA member firms.

G S P	Item	Stat. Suf- fix	Articles	Units of Quantity	Rates of Duty		
					1	LDDC	2
			Subpart B. - Vegetables, Dried, Desiccated, or Dehydrated				
			Vegetables, dried, desiccated, or dehydrated, whether or not reduced in size or reduced to flour (but not otherwise prepared or preserved):				
			Dried, desiccated, or dehydrated:				
			Beans:				
			If entered for consumption during the period from May 1 to August 31, inclusive, in any year:				
	140.09	00	Mung..............................	Lb......	Free		3c per lb.
A	140.10	00	Red kidney........................	Lb......	1c per lb.		3c per lb.
A	140.11		Other.............................	....	0.75c per lb.		3c per lb.
		20	Lima..........................	Lb.			
		40	Other.........................	Lb.			
			If entered for consumption outside the above-stated period, or if withdrawn for consumption at any time:				
A	140.14	00	Mung..............................	Lb......	0.5c per lb.		3c per lb.
A	140.16		Other.............................	....	1.5c per lb.		3c per lb.
		20	Lima..........................	Lb.			
		40	Red kidney....................	Lb.			
		60	Other.........................	Lb.			
			Chickpeas or garbanzos:				
A	140.20	00	Split................................	Lb......	1.2c per lb.		2.5c per lb.
A*	140.21	00	Other................................	Lb......	1.4c per lb.		1.75c per lb.
			Cowpeas:				
	140.25	00	Black-eye............................	Lb......	Free		3c per lb.
	140.26	00	Other................................	Lb......	Free		Free
	140.30	00	Garlic...................................	Lb......	35% ad val.		35% ad val.
A	140.35	00	Lentils..................................	Lb......	0.15c per lb.		0.5c per lb.
A	140.38	00	Lupines..................................	Lb......	0.15c per lb.		0.5c per lb.
	140.40	00	Onions...................................	Lb......	20.8% ad val.	25% ad val.	35% ad val.
			Peas:				
	140.45	00	Split................................	Lb......	Free		2.5c per lb.
A	140.46	00	Other................................	Lb......	0.4c per lb.		1.75c per lb.
	140.50	00	Potatoes.................................	Lb......	1.3c per lb.		2.75c per lb.
A	140.54	00	Carrots..................................	Lb......	5.2% ad val.		35% ad val.
A	140.56	00	Other....................................	Lb......	13% ad val.		35% ad val.
			Reduced to flour:				
	140.60	00	Garlic...................................	Lb......	35% ad val.		35% ad val.
	140.65	00	Onions...................................	Lb......	35% ad val.		35% ad val.
A	140.70	00	Potatoes.................................	Lb......	1.2c per lb.		2.5c per lb.
	140.74	00	Tomatoes.................................	Lb......	13% ad val.		35% ad val.
A	140.76	00	Other....................................	Lb......	13% ad val.		35% ad val.
			Note: For explanation of the symbol "A" or "A*" in the column entitled "GSP", see general headnote 3(c).				

Table 1. -- Onions: California Summer[1]: acreage, yield, production, and value, commercial crop by years 1979 - 1983

Year	Area Harvested	Yield Per Acre	Production[2]	Shrinkage And Loss	--------Value---------- Per Cwt.	Total
	acres	cwt.	1,000cwt.	1,000cwt.	dollars	1,000 dollars
1979	29,700	320	9,504	360	6.09	55,687
1980	25,000	240	6,000	210	7.62	44,121
1981	22,300	315	7,025	221	8.37	56,969
1982	29,700	350	10,395	220	6.74	68,573
1983	27,400	330	9,042	210	7.67	67,703

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[1] Primarily for processing.

[2] Includes quantities not marketed because of shrinkage and loss. Such quantities are excluded in computing value.

SOURCE: Compiled from official statistics of the U.S. Department of Agriculture, Crop Reporting Board.

Table 2. -- Garlic: California acreage, yield, production, and farm value, 1979 - 1983

Year	Area Harvested	Yield Per Acre	Production	Value Per cwt.	Value Total
	acres	cwt.	1,000 cwt.	(dollars)	1,000 dollars
1979.......	14,200	130	1,846	15.20	28,059
1980[1].....	15,200	130	1,976	17.10	33,816
1981[1].....	13,200	125	1,650	21.80	35,947
1982[2].....	NA	NA	NA	NA	NA
1983[2].....	NA	NA	NA	NA	NA

1/ Preliminary.

2/ USDA budget cuts eliminated collection of farm data for this crop. The State of California did not continue collection of data in 1982 or 1983.

NA - Data not available.

SOURCE: Official statistics from the U. S. Department of Agriculture.

Table 3. -- Onions: Supply and utilization by ADOGA member firms, 1979 - 1983

Year	Fresh Onion Supplies 1/	Production of Dehydrated Onions: Powder (Flour)	Granulated	Chopped or Minced	Other Sizes	All Product Total
		----- in millions of pounds -----				
1979	714.2	34.3	9.3	73.8	19.4	136.7
1980	589.3	28.2	8.2	70.1	8.2	114.8
1981	495.1	21.1	6.6	59.3	8.1	95.2
1982	805.3	41.7	10.4	91.7	13.2	156.9
1983	715.8	37.2	10.6	89.1	10.0	146.9

1/ Represents purchases of which more than 90 percent each year were grown uncer contract.

SOURCE: Compiled from data reported by ADOGA member firms.

Table 4. -- Garlic: Supply and utilization by ADOGA member firms, 1979 - 1983

Year	Fresh Garlic Supplies[1]	Production of Dehydrated Garlic: Powder (Flour)	Production of Dehydrated Garlic: All Products
	-- in millions of pounds --		
1979	137.1	14.1	45.2
1980	144.0	14.2	45.5
1981	78.7	8.8	25.6
1982	118.1	11.9	39.4
1983	134.2	14.6	44.7

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[1] Represents purchases of which more than 90 percent each year was grown under contract.

SOURCE: Compiled from data reported by ADOGA member firms.

Table 5. — U.S. Producers' price indexes for all commodities, processed fruits and vegetables, Compared with ADOGA's wholesale price index for dehydrated onion products, 1979 - 1983.
(1967=100)

Year	BLS Producers' price index		ADOGA Wholesale price index for domestic dehydrated onions				
	All commodities	Processed fruits and vegetables	Powder	Granulated	Minced	Chopped	Sliced
1979....	235.6	221.9	181.8	194.8	192.7	197.0	194.9
1980....	263.6	228.9	201.8	205.7	207.3	208.8	206.2
1981....	293.4	261.2	200.0	212.5	221.6	221.1	221.2
1982....	299.3	274.5	222.0	231.6	248.1	221.1	243.3
1983....	303.1[1]	277.1[1]	222.0	233.9	248.1	221.1	245.7

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[1] Preliminary.

SOURCE: Indexes for all commodities and for processed fruits and vegetables from the U.S. Bureau of Labor Statistics; indexes for dehydrated onions based upon the midpoints of the ranges of average net price per pound, f.o.b. domestic producers' shipping point, for orders of 30,000 pounds each, as reported by ADOGA firms.

Table 6. — U.S. Producer's price indexes for all commodities, processed fruits and vegetables, compared with selected domestic dehydrated garlic products, 1979 - 1983.
(1967=100)

Year	BLS Producer's price index		ADOGA wholesale price index for domestic dehydrated garlic			
	All Commodities	Processed fruits and vegetables	Powder (flour)	Granulated	Minced	All Other
1979......	235.6	221.9	181.3	173.1	173.1	191.3
1980......	263.6	228.9	186.0	177.7	176.4	194.1
1981......	293.4	261.2	197.1	181.9	190.5	217.3
1982......	299.3	274.5	212.8	213.0	207.6	225.9
1983......	303.1 1/	277.1 1/	210.7	210.8	205.5	243.9

1/ Preliminary.

SOURCE: Indexes for all commodities and processed fruits and vegetables from U.S. Bureau of Labor Statistics; indexes for dehydrated garlic based on the midpoints of the ranges of average net prices per pound, f.o.b. domestic producers' shipping point, for orders of 30,000 pounds each, as reported by ADOGA member firms.

Table 7. -- Onions, dry: Production in Specified Countries, Average 1974-76, annual 1980-82

Country and Area	Average 1974-76	1980	1981	1982
	1,000 pounds	1,000 pounds	1,000 pounds	1,000 pounds
China................	52,095 1/	58,246 1/	59,943 1/	60,693 1/
India................	45,922	55,203	60,252	59,524 1/
USSR.................	31,504	39,573 2/	41,887 1/	46,297 1/
United States........	33,289	33,466	35,031	41,336
Japan................	23,413	25,397	22,972	27,117
Turkey...............	15,145	21,164	24,030	25,375 1/
Spain................	18,695	19,974	23,214	23,391
Brazil...............	8,179	15,322	17,130	14,749
Egypt................	14,859	13,470	14,418 2/	14,484 1/
Netherlands..........	7,959	9,546	11,839	12,368
Italy................	10,803	11,596	11,927	10,803
Korea, Rep...........	2,557	6,063	6,195	9,678
Pakistan.............	6,349	9,568	9,568 1/	9,568 1/
Poland...............	7,452	6,638	9,348	9,304
Yugoslavia...........	5,688	6,944	7,430	7,033 1/
Romania..............	6,195	6,702	5,313	6,614 1/
Columbia.............	5,666	6,129	5,842 1/	5,952 1/
Morocco..............	3,417	5,291 1/	5,512 1/	5,864 1/
Iran.................	6,922	5,512 2/	5,578 1/	5,578 1/
United Kingdom.......	4,189	4,960	5,071	5,203
Israel...............	1,190	683	1,190	1,367
Developed countries	177,140	195,592	206,703	223,458
Developing countries	214,728	253,000	264,486	270,306
Centrally planned 3/	109,238	124,582	129,653	137,325
World Total	391,868	448,614	471,189	493,764

NOTE: Mexico, an important onion producer, is not listed above since it is not a UN member.

1/ FAO estimate.

2/ Unofficial.

3/ Included in developed and developing countries.

SOURCE: 1982 Production Yearbook, Vol. 56, Food and Agricultural Organization of the United Nations, Rome, 1983.

Table 8. -- Garlic: Production in Specified Countries, Average 1974-76, Annual 1980-82

Country and Area	Average 1974-76	1980	1981	1982
	1,000 pounds	1,000 pounds	1,000 pounds	1,000 pounds
China................	977 1/	1,179 1/	1,155 1/	1,224 1/
India................	260	441 1/	441 1/	470 1/
Spain................	437	467	337	434
Korea, Rep...........	225	558	340	410
Thailand.............	366	412	373	397 1/
Egypt................	333	439	357 2/	366 1/
Turkey...............	130	176	165	185 1/
United States........	117	198	165	172 1/
Brazil...............	46	88	104	154
Yugoslavia...........	119	155	132	132 1/
France...............	79	104	108 1/	112 1/
Italy................	134	115	110	110
Mexico...............	64	104	88	95
Bangladesh...........	90	82	93	93 1/
Argentina............	150	209	152	84
Pakistan.............	88	86	82	82 1/
Korea, DPR...........	53	66 1/	73 1/	77 1/
Burma................	42	57	57	60 1/
Bulgaria.............	35	35	37	49
Romania..............	44	49	68	49 1/
USSR.................	37	51 2/	44 1/	49 1/
Israel...............	4	7	7 1/	7 1/
Developed countries	1,085	1,226	1,082	1,195
Developing countries	2,994	4,090	3,684	3,909
Centrally Planned 3/	1,173	1,404	1,402	1,475
World Total	4,079	5,317	4,766	5,104

NOTE: Mexico, although an important garlic producer, is not listed above, since it is not a UN member.

1/ FAO estimate.
2/ Unofficial.
3/ Included in developed and developing countries.

SOURCE: 1982 Production Yearbook, Vol. 36, Food and Agricultural Organization for the United Nations, Rome, 1983.

Table 9. -- Onions, dried, desiccated or dehydrated: U.S. imports for consumption annually, 1978 - 1983.

Country	1978	1979	1980	1981	1982	1983
			Quantity (pounds)			
Mainland China	-	-	1,178	1,690	9,935	4,077
FR. Germany	-	-	-	-	5,494	-
Netherlands	42,144	2,639	1,995	2,263	3,670	2,007
Taiwan	-	-	1,500	2,500	3,123	300
Iran	-	-	-	-	2,205	3,131
Canada	15,021	42,260	55,340	775	-	1,163
Egypt	24,581	-	-	-	-	-
Japan	36,462	9,393	8,928	24	18	285
Belgium	-	-	19,950	169,563	-	-
France	-	-	-	17,637	100	6,072
Israel	-	-	-	24,716	-	-
Mexico	-	-	2,310	-	-	-
South Africa	-	-	-	-	-	14,960
Other	13,150	1,000	-	441	1,015	25
Total	131,358	55,292	91,201	219,609	26,160	32,020
			Value (dollars)[1]			
Mainland China	$ -	$ -	$ 322	$ 861	$ 3,354	$ 2,056
FR. Germany	-	-	-	-	14,645	-
Netherlands	17,352	6,387	6,352	6,834	7,275	5,793
Taiwan	-	-	1,140	2,896	3,407	729
Iran	-	-	-	-	1,457	3,689
Canada	21,514	4,377	21,072	1,233	-	4,258
Egypt	14,320	-	-	-	-	-
Japan	93,192	28,463	27,278	941	708	1,271
Belgium	-	-	6,238	69,575	-	-
France	-	-	-	3,948	616	3,764
Israel	-	-	-	13,116	-	-
Mexico	-	-	693	-	-	-
South Africa	-	-	-	-	-	4,224
Other	21,914	1,268	-	2,335	2,891	257
Total	$168,292	$40,495	$68,095	$101,737	$34,353	$26,041

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[1] Prior to 1982 represents market value in the foreign country. Beginning in 1982 represents custom's value, the actual transaction value between buyer and seller. Both types of value exclude U.S. duties, freight, insurance and other expenses incurred prior to removal from the port of entry.

SOURCE: Official statistics of the U.S. Department of Commerce (TSUS 140.40).

Table 10. -- Garlic, dried, desiccated or dehydrated: U.S. imports for consumption, annually 1978 - 1983

Country	1978	1979	1980	1981	1982	1983
			Quantity (pounds)			
Mainland China	137,347	123,387	131,256	205,651	3,443,662	757,147
FR. Germany	-	-	-	60	24,558	34,836
Singapore	-	-	-	-	19,842	-
Taiwan	55,115	1,100	11,750	9,884	19,548	4,409
India	-	-	-	-	5,002	1,843
Canada	40,000	-	4,789	41,627	3,000	16,400
Hong Kong	20,944	-	500	250	2,900	8,902
France	-	-	3,433	3,719	-	-
Mexico	27,984	-	-	-	-	19,663
Japan	-	-	6,129	-	-	-
Argentina	-	307,674	132,276	-	-	-
Other	1,220	304	1,053	981	2,128	446
Total	282,610	432,465	290,886	262,162	3,520,640	843,666
			Value (dollars)[1]			
Mainland China	$ 59,007	$ 69,229	$ 86,222	$125,225	$1,997,526	$477,393
FR. Germany	-	-	-	3,159	71,771	60,281
Singapore	-	-	-	-	9,830	-
Taiwan	27,446	1,000	12,323	5,120	8,241	3,500
India	-	-	-	-	3,877	1,365
Canada	7,484	-	6,113	18,927	2,649	13,024
Hong Kong	10,636	-	746	277	2,190	6,521
France	-	-	3,843	445	-	-
Mexico	4,940	-	-	-	-	8,714
Japan	-	-	2,447	-	-	-
Argentina	-	291,289	138,817	-	-	-
Other	1,639	1,352	655	2,926	2,444	624
Total	$111,152	$362,870	$251,166	$155,679	$2,098,528	$571,442

1/ Prior to 1982 represents market value in the foreign country. Beginning in 1982 represents custom's value, the actual transaction value between buyer and seller. Both types of value exclude U.S. duties, freight, insurance and other expenses incurred prior to removal from the port of entry.

SOURCE: Official statistics of the U.S. Department of Commerce (TSUS 140.30).

Table 11. — Onion Flour: U.S. imports for Consumption annually
1978 - 1983

Country	1978	1979	1980	1981	1982	1983
			Quantity (pounds)			
Canada	-	1,400	-	2,250	-	803
Italy	2,766	-	-	2,782	353	5,309
France	1,322	-	-	-	254	-
Hong Kong	-	1,001	-	-	-	2,579
Japan	8	-	-	-	-	-
Mainland China	-	-	-	4,659	250	1,160
Rep. of Korea	-	-	-	-	-	500
Total	4,096	2,401	-	9,691	857	10,351
			Value (dollars)[1]			
Canada	$ -	$1,280	$-	$1,249	$ -	$ 1,371
Italy	11,104	-	-	1,885	2,340	5,558
France	2,689	-	-	-	542	-
Hong Kong	-	609	-	-	-	4,138
Japan	260	-	-	-	-	-
Mainland China	-	-	-	3,500	650	1,043
Rep. of Korea	-	-	-	-	-	2,425
Total	$14,053	$1,889	$-	$6,644	$3,532	$14,535

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[1] Prior to 1982 represents market value in the foreign country. Beginning in 1982 represents custom's value, the actual transaction value between buyer and seller. Both types of value exclude U.S. duties, freight, insurance and other expenses incurred prior to removal from the port of entry.

SOURCE: Official statistics of the U.S. Department of Commerce (TSUS 140.65).

Table 12. -- Garlic Flour: U.S. imports for consumption annually 1978 - 1983

Country	1978	1979	1980	1981	1982	1983
			Quantity (pounds)			
Mainland China	400	3,803	4,741	67,361	83,732	11,023
Taiwan	2,500	-	32,443	-	-	2,705
France	-	-	-	39,687	149,185	525
FR. Germany	-	-	-	-	10,859	18,550
Italy	4,592	-	-	176	353	5,397
Japan	2,424	1,495	21,822	4,074	92	970
Mexico	6,614	6,614	-	44,092	66,138	19,716
Spain	1,102	-	-	-	-	-
Canada	-	-	-	3,686	2,000	2,338
Thailand	-	-	-	6,000	-	-
U.K.	-	110	265	-	149,185	-
Egypt	-	-	-	-	11,023	-
Hong Kong	-	-	-	-	1,000	2,579
India	-	-	-	-	4,894	366
Peru	-	-	-	-	552	-
Chile	-	-	-	-	-	550
Total	19,750	12,022	59,271	165,076	332,028	63,719
			Value (dollars)[1]			
Mainland China	$ 309	$ 2,467	$ 4,574	$ 43,453	$ 55,412	$ 6,384
Taiwan	3,000	-	33,412	-	-	2,401
France	-	-	-	38,375	150,130	823
FR. Germany	-	-	-	-	18,972	20,781
Italy	18,438	-	-	766	2,340	6,143
Japan	10,839	15,884	162,461	26,405	703	652
Mexico	3,637	3,637	-	3,128	4,692	4,426
Spain	1,005	-	-	-	-	-
Canada	-	-	-	3,869	2,001	2,371
Thailand	-	-	-	4,671	-	-
U.K.	-	412	944	-	150,130	-
Egypt	-	-	-	-	7,350	-
Hong Kong	-	-	-	-	1,004	4,138
India	-	-	-	-	3,673	317
Peru	-	-	-	-	3,041	-
Chile	-	-	-	-	-	394
Total	$37,277	$22,400	$201,391	$120,687	$251,253	$48,830

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[1] Prior to 1982 represents market value in the foreign country. Beginning in 1982 represents custom's value, the actual transaction value between buyer and seller. Both types of value exclude U.S. duties, freight, insurance and other expenses incurred prior to removal from the port of entry.

SOURCE: Official statistics of the U.S. Department of Commerce (TSUS 140.60).

Table 13. -- Onion Oil and Garlic Oil: Imports for consumption, by years 1978 - 1983

Country of origin	1978	1979	1980	1981	1982	1983
			Quantity (pounds)			
Mexico	5,529	6,446	9,820	15,548	7,218	4,155
Italy	1,019	1,186	2,205	1,763	916	661
Mainland China	-	-	1,763	1,763	-	-
Egypt	2,392	1,005	1,234	965	1,300	551
Netherlands	220	485	1,077	2,049	1,548	418
FR. Germany	-	-	55	-	-	-
Switzerland	110	-	22	-	-	110
Belgium	540	-	132	385	110	110
Chile	132	-	-	-	-	-
France	-	165	-	36	-	-
Total	9,942	9,287	16,308	22,529	10,592	6,005
			Value (000 dollars)[1/]			
Mexico	227.5	353.3	580.6	638.4	269.5	218.7
Italy	108.5	65.5	270.5	150.0	95.4	70.3
Mainland China	-	-	92.5	87.6	-	-
Egypt	102.6	63.8	127.0	116.3	126.1	27.7
Netherlands	56.3	112.0	183.8	129.3	245.7	61.1
FR. Germany	-	-	0.3	-	-	-
Switzerland	26.1	-	5.9	-	-	1.6
Belgium	148.5	-	5.1	13.2	4.3	17.6
Chile	7.1	-	-	-	-	-
France	-	0.3	-	3.8	-	-
Total	736.6	594.9	1265.8	1238.6	741.0	397.0

[1/] Prior to 1982 represents market value in the foreign country. Beginning in 1982 represents custom's value, the actual transaction value between buyer and seller. Both types of value exclude U.S. duties, freight, insurance and other expenses incurred prior to removal from the port of entry.

SOURCE: Official statistics of the U.S. Department of Commerce (TSUS 452.8023).

Table 14. -- Onions, Dried, Desiccated, or Dehydrated, except onion flour: Exports from the United States, by year 1979 - 1983

Country of destination	1979	1980	1981	1982	1983
			Quantity (000 pounds)		
Spain...........	987	2,080	1,174	1,217	833
Switzerland.....	792	1,237	1,262	1,105	1,469
United Kingdom..	6,579	6,333	6,374	6,455	6,155
FR. Germany.....	4,512	4,483	5,161	6,499	5,804
Canada..........	4,152	3,794	5,154	5,791	4,840
Japan...........	3,207	3,291	6,898	3,579	3,227
Sweden..........	1,649	1,526	1,629	1,246	1,415
Netherlands.....	1,406	1,895	1,363	1,955	1,712
Australia.......	1,609	1,499	2,318	1,930	2,276
Israel..........	26	32	68	27	48
Other...........	4,457	5,433	5,884	4,731	5,517
Total.........	29,376	31,571	37,217	34,508	33,248
			Value (000 dollars)		
Spain...........	$ 672	$ 1,567	$ 831	$ 1,022	$ 780
Switzerland.....	818	1,022	1,051	1,100	1,423
United Kingdom..	5,106	5,221	5,700	6,910	6,555
FR. Germany.....	3,476	3,342	4,209	6,333	5,490
Canada..........	3,661	3,360	4,618	6,038	5,414
Japan...........	3,536	3,124	6,311	4,027	3,629
Sweden..........	1,618	1,555	1,723	1,431	1,711
Netherlands.....	1,022	1,427	1,095	1,874	1,609
Australia.......	1,470	1,402	2,349	2,412	2,697
Israel..........	24	30	59	30	46
Other...........	3,362	4,422	4,830	4,733	5,375
Total.........	$24,761	$26,446	$32,717	$35,880	$34,686

SOURCE: Official statistics of the U.S. Department of Commerce (Schedule B 140.5300).

Table 15. -- Garlic, Dried, Desiccated, or Dehydrated, except flour: Exports from the United States, 1979 - 1983.

Country of destination	1979	1980	1981	1982	1983
			Quantity (000 pounds)		
FR. Germany.....	1,043	865	576	374	947
Canada..........	1,140	913	1,245	1,729	1,576
Venezuela.......	720	712	448	935	208
Japan...........	1,068	422	335	341	254
Netherlands.....	178	325	308	238	361
Sweden..........	94	95	141	76	143
Belgium.........	303	52	33	59	85
United Kingdom..	136	231	372	375	397
Australia.......	46	133	520	362	336
Israel..........	142	87	177	110	239
Other...........	1,421	938	1,608	1,734	1,273
Total.........	6,291	4,773	5,763	6,333	5,819
			Value (000 dollars)		
FR. Germany.....	$1,110	$ 858	$ 548	$ 408	$ 807
Canada..........	1,214	994	1,574	2,122	1,834
Venezuela.......	1,011	947	619	1,408	265
Japan...........	1,447	530	446	455	339
Netherlands.....	181	261	189	149	250
Sweden..........	122	116	174	116	192
Belguim.........	330	45	21	42	72
United Kingdom..	167	223	355	402	409
Australia.......	64	173	557	419	480
Israel..........	139	90	26	125	246
Other...........	1,393	850	1,610	1,843	1,176
Total.........	7,178	$5,087	$6,114	$7,489	$6,070

SOURCE: Official statistics of the U.S. Department of Commerce (Schedule B 140.5100).

Table 16. -- Vegetables, reduced to flour (powder): Exports from the United States, by year, 1980 - 1983

Country of origin	1980	1981	1982	1983
	Quantity (000 pounds)			
Mexico..............	212	556	536	7,525
Australia...........	331	398	376	266
Canada..............	1,542	1,540	1,602	1,621
Japan...............	4,595	778	683	662
Switzerland.........	294	4,259	370	245
United Kingdom......	1,666	455	373	1,118
Other...............	2,739	2,755	4,089	2,707
Total............	11,167	10,741	8,029	14,144
	Value (000 dollars)			
Mexico..............	$ 194	$ 112	$ 599	$ 919
Australia...........	613	744	799	738
Canada..............	918	1,076	1,147	1,044
Japan...............	723	1,145	1,097	1,061
Switzerland.........	454	1,222	738	647
United Kingdom......	1,203	715	585	1,002
Other...............	3,213	3,603	4,146	3,328
Total............	7,123	$8,617	$9,111	$8,739

NOTE: "Vegetables" include onions, garlic, green peppers, carrots, tomatoes, parsley and other vegetables but excludes potatoes.

SOURCE: Official statistics of the U.S. Department of Commerce (Schedule B 140.7100).

Mr. DOWNEY. Mr. Stewart.

STATEMENT OF EUGENE L. STEWART, SPECIAL COUNSEL, ROSES INC.

Mr. STEWART. Good morning, Congressman Downey, Congressman Russo, and Congressman Thomas. I appreciate that you have my prepared statement and it has a one-page summary on top and I will not refer to it further. I wish, instead, to directly address questions that you, Mr. Chairman, and you, Mr. Thomas, put to witnesses this morning.

First of all, the rose growing industry brought a countervailing duty action against the roses from Colombia. The initial determination was a net benefit of 1.5 percent. We took the case to court. The court sent it back to the Commerce Department which reinvestigated; the second time they found the net benefit was 12½ percent.

Subsequently, they made an annual review and found the net subsidy was, in fact, 29 percent of the value of the roses exported from Israel to the United States. On page 4 of my statement, I identified 10 specific Israeli Government programs which have been determined by the Commerce Department to constitute subsidies on their production and exportation of roses.

Many of these programs, by their nature would apply to other agricultural and floracultural commodities. That's an answer to a question that Congressman Thomas has asked several witnesses, do you know what specific subsidy programs the Israel Government uses?

The second was in response to a colloquy between Chairman Gibbons and yourself, Mr. Downey, concerning the basis for concern on the part of industry and the public that the enactment of your bill might put into the hands of the President, the authority to negotiate a trade agreement which would eliminate the effect of our countervailing duty, antidumping duty and other unfair competition laws.

With respect to you, Mr. Chairman, the text of your bill contains on page 1, line 6, the words, "the elimination of existing duties and other import restrictions on articles that are a product of Israel." In his testimony before this committee, the U.S. Trade Representative, speaking through Ambassador Lighthizer, stated that at page 5 of his prepared testimony, it is expected that the United States-Israeli free trade area would be somewhat similar to the agreement Israel has with the European Community; however, unlike the EEC Israel Agreement, the agreement the United States would enter into would be consistent with the requirements of article XXIV of the GATT. I have article XXIV of the GATT before me. Paragraph 8b of that article states, "A free trade area shall be understood to mean a group of two or more customs territories," and here are the key words, "in which the duties and other restrictive regulations of commerce except those permitted under articles XI through XV and XX are eliminated on substantially all trade between the constituent territories.

Significant in the wording of that paragraph is that it does not exclude article VI of GATT, which is the article that provides for antidumping and countervailing duties. Now, the U.S. Trade Representative is familiar with GATT. I believe that by referring to this article XXIV at page 5 of his testimony he was sending a signal to the sophisticated and the well-informed in GATT legalese that the administration indeed does include in its intentions, the negotiation of a trade agreement that would exclude from operation, the countervailing duty law and the antidumping duty law and other unfair competition laws.

I believe from what the chairman has said and what you have said, Mr. Downey, that that is not your intention. So there is a need for you to include appropriate language. Again, I refer just briefly at the bottom of page 6 of Ambassador Lighthizer's prepared testimony talking about safeguards, countervailing duties, antidumping, et cetera, that are included in the EC Israeli Agreement, he says, "Our own agreement would likely contain similar provisions."

Again sending a signal that it is likely, might not if this Congress does not give specific guidance.

One final word, the 179 family-owned commercial greenhouses that produce roses located in 32 States without exception are owned by families and those greenhouses have been handed down from generation to generation. They produce about 330 million rose blooms a year.

In 1983 there were 126 million rose blooms imported and since 1980 the total imports have increased at the rate of 30 million blooms a year. There has been no growth in the domestic production and the increase each year in imports is equal to 8 percent of domestic production. Import penetration has gone from 8 percent in 1980 to 21 percent in 1983 and there is an unbroken, steady growth rate that I have described to you.

Your committee, in considering legislation such as our rose import tariff bill which is regarded as controversial because there are always people like the administration that oppose a tariff bill, like to say, "use the existing remedies." We have twice been before the International Trade Commission in escape clause proceedings. We have had countervailing duty proceedings against the Netherlands, Israel, Mexico, and Colombia.

Twice we prevailed on cases against Colombian roses only to have the U.S. Government immediately suspend the investigation and enter into an agreement with Colombia in which they promised that they would withhold the subsidy, which promise has not been kept in either case.

We now are in our fourth year of endeavoring to secure antidumping duties on roses from Colombia. There are 44 rose growers and exporters in Colombia. The Commerce Department has decided it will investigate only 11 of the 44. By selecting the 11 largest growers in Colombia in that antidumping duty investigation they have picked those with the best established channels of distribution who are the least likely to have been using large margins of dumping.

The Commerce Department in the roses cases has structured every investigation so as to stultify the relief that we are entitled to. This committee is unwilling, although it has heard our rose tariff bill twice, to take the bill up and to have a vote on it in subcommittee or to report it to the full committee for a vote.

You are listening to the honored spokesman of a group of small business concerns, family owned, that have gone everywhere that you have provided a remedy without success. We are being overwhelmed by imports. We are now in a liquidation mode. We are asking in this free trade legislation for Israel, we are not opposing the bill, we are saying at least insert the right language to make it clear that the unfair competition remedies of title VII of the 1979 act apply and cannot be negotiated away.

Thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF EUGENE L. STEWART, SPECIAL COUNSEL, ON BEHALF OF ROSES INC.

SUMMARY

(1) Fresh cut roses are import sensitive to duty-free imports;

(2) The domestic rose growers are faced with unfair competition from subsidized imports of roses from Israel and Colombia; and

(3) There is a reasonable indication that the domestic rose growing industry is being materially injured and is threatened with material injury by reason of the importation of roses from Colombia at less than fair value.

On the basis of the precedent offered by the Agreement between the European Economic Community and the State of Israel, and the Canadian-U.S. Automotive Products Trade Agreement, the Committee should include in any bill which it reports authorizing the establishment of a free trade area between the United States and Israel provisions which—

exclude fresh cut roses from the duty-free treatment otherwise provided for by the legislation; or

alternatively, place quantitative limitations on the volume of fresh cut roses which may be imported duty-free from Israel equal to the total imports from Israel in 1983;

preserve the existing countervailing duty order and duty assessments on fresh cut roses from Israel; and

make all imports from Israel subject to the existing U.S. domestic law provisions for escape clause, antidumping duty, countervailing duty, Sec. 337 and Sec. 301 relief.

STATEMENT

Mr. Chairman and members of the Committee; this testimony is presented on behalf of Roses Incorporated, the trade association representing the domestic rose growers.

Roses Incorporated has 179 members operating commercial rose greenhouses, located in 32 States: Alabama, Arkansas, California, Colorado, Connecticut, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Massachusetts, Michigan, Minnesota, Missouri, New Hampshire, New Jersey, New York, North Carolina, Ohio, Oregon, Pennsylvania, Tennessee, Utah, Virginia, Washington, Wisconsin and Wyoming.

In 1983 the members of Roses Incorporated produced and shipped to the U.S. market an estimated 373.3 million rose blooms, with a farm gate value of $100.6 million. These greenhouses are predominantly family-owned, small businesses. In 1983 they represented a capital investment of about $67 million, and employ a work force of about 3,500 persons.

The domestic commercial greenhouses producing roses have been, and are being, increasingly affected, adversely, by surging imports of fresh cut roses. By 1983, foreign roses had captured 21% of the U.S. market, up from 8% in 1980![1]

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[1] Apparent U.S. consumption as calculated by the U.S.I.T.C. was (millions of blooms) 1980, 499.8; 1981, 524.3; 1982, 548.5. (USITC Pub. 1450, Nov. 1983). Using the prorate of Jan.-Sept. 1982/1983 apparent consumption per the ITC, the 1983 total consumption is estimated at 606.0. Thus in 1983, imports of 126.1 divided by apparent consumption of 606.0 = 20.8%.

U.S. IMPORTS FOR CONSUMPTION OF FRESH CUT ROSES BY PRINCIPAL SOURCES, 1980–83

Period	Colombia	Israel	Netherlands	Other	Total
Quantity (million blooms):					
1980	29.9	5.0	1.4	2.2	38.5
1981	52.9	6.2	3.2	5.2	67.5
1982	75.4	5.3	5.2	8.3	94.1
1983	98.7	4.3	7.2	15.9	126.1
Value (thousands of dollars):					
1980	5,471	371	386	385	6,613
1981	11,078	320	833	869	13,100
1982	16,049	295	1,158	1,338	18,840
1983	26,000	441	1,719	2,565	30,725
Average unit value (cents per bloom):					
1980	18	7	28	18	17
1981	21	5	26	17	19
1982	21	6	22	16	20
1983	26	10	24	16	24

Source: USITC Publication 1450, November 1983, Table 9; Bureau of the Census, IM 145.

Israel is not the largest, but it is one of the principal sources of fresh cut roses imported into the United States. In Israel, the production of fresh cut flowers, including roses, for export is heavily subsidized. Countervailing duties have been assessed at the rate of 27.94% ad valorem to offest the net benefit to subsidies bestowed upon Israeli rose growers and exporters under ten programs: the Encouragement of Capital Investment Law; Government-Guaranteed Minimum Price program; preferential short-term financing; government funding of the exclusive exporter of fresh cut flowers, AGREXCO; cash payments to growers for greenhouses; cash payments to fresh cut flower packing houses; cash payments from the Export Promotion Fund; fuel grants to rose growers; long term loans granted to AGREXCO; and a capital fund granted AGREXCO. Federal Register, Vol. 49, No. 4, January 6, 1984, pages 924, 925.

In addition, roses from Israel are severely undervalued for customs purposes. Notice in the above table the low unit value of Israeli roses compared with imported roses from all other sources. This undervaluation results from the Government owned and subsidized exclusive export organization, AGREXCO, transferring fresh cut roses to its wholly owned U.S. affiliate at nominal prices instead of prices which reasonably reflect the fair value of the imported roses. As a result of this 58% undervaluation, the 8% ad valorem rate for ordinary customs duties is reduced effectively to 3.4%, while the countervailing duty rate is reduced effectively to 11.7%.

Heretofore, roses from Israel and other developing countries have been determined *not* to be entitled to duty-free treatment under the Generalized System of Preferences because of the import sensitive status of the domestic product. Federal Register, Vol. 46, No. 102, May 18, 1981, pp. 28779, 28780 (Case No. 78–24).

Moreover, roses and other fresh cut flowers from Colombia, the predominant supplier of imported roses to the U.S. market as shown by the above table, have again been found to be subsidized by the Colombian government. Previously, the Treasury Department found in 1974 that exports of fresh cut flowers to the U.S. from Colombia received subsidies equal to 10.4% of their ad valorem value from the Colombian government. In that case, as in the recent Commerce Department investigation, the administering authority accepted an agreement from the Colombians to divert the subsidies from direct to indirect support of exports of roses instead of imposing countervailing duties to offset the unfair advantage of the government subsidies. Federal Register, Vol. 39, page 26922. Recently, following an affirmative preliminary determination that the net subsidy conferred on exports of Colombian roses and other cut flowers to the United States was equal to 5% of the export value, Federal Register, Vol. 47, No. 215, Nov. 5, 1982, page 50314 et seq., the Department of Commerce entered into an agreement with the Colombian exporters suspending the countervailing duty proceeding and the collection of subsidy-neutralizing countervailing duties in exchange for promises that they would renounce these subsidies. Federal Register, Vol. 48, No. 12, Jan. 18, 1983, p. 2158 et seq.

In addition, the U.S.I.T.C. and the Commerce Department have initiated an antidumping duty investigation of fresh cut roses from Colombia. Federal Register, Vol. 48, No. 208, pp. 49530 et seq. The Department has preliminarily determined that fresh cut roses from Colombia are being sold, or are likely to be sold, in the United

States at less than fair value, at an estimated weighted-average LTFV margin of 20.2%. 49 Fed. Reg. 9597, March 14, 1984. The U.S.I.T.C. has determined that there is a reasonable indication that an industry in the United States is materially injured, or is threatened with material injury, by reason of the imports from Colombia of fresh cut roses that are the subject of the antidumping duty investigation. USITC Pub. 1450, November 1983. The Department has postponed its final antidumping duty determination to not later than July 27, 1984. 49 Fed. Reg. 13177, April 3, 1984. The Commission has announced its final investigation and the scheduling of a public hearing on July 30, 1984. 49 Fed. Reg. 13440, April 4, 1984, as amended.

Finally, the domestic rose growers are not threatened anew by the blanket duty-free treatment which has recently been extended to imports of fresh cut roses from the Caribbean countries under the Caribbean Basin Initiative. Fresh cut roses are exported to the United States from Guatemala, Costa Rica, Panama, Jamaica, and the Dominican Republic. In 1983 a total of 7.2 million roses were imported from these Caribbean countries, each of whom has been designated by the President as eligible for duty-free treatment of their exports to the United States. Proclamation 5133, November 30, 1983; Proclamation 5142, December 29, 1983. For comparison, a total of only 3.4 million blooms were imported from these countries in 1981. Thus, on a dutiable basis, imports from the Caribbean producers now entitled to duty-free treatment have increased by 112% in just two years' time. The irony of the duty-free treatment now extended to these countries is manifested by the fact that it was at the request of the Dominican Republic and Panama that the USTR and the ITC considered and on their advice the President ruled against duty-free treatment for fresh cut roses under the Generalized System of Preferences because of the import sensitivity of roses and the probable adverse economic effect of duty-free imports on the domestic producers. Federal Register, Vol. 46, No. 102, May 28, 1981, pp. 28779, 28780.

On the basis of the foregoing information we respectfully submit that—

(1) fresh cut roses are import sensitive to duty-free imports;

(2) the domestic rose growers are faced with unfair competition from subsidized imports of roses from Israel and Colombia; and

(3) there is a reasonable indication that the domestic rose growing industry is being materially injured and is threatened with material injury by reason of the importation of roses from Colombia at less than fair value.

Mr. Downey. Thank you, Mr. Stewart.

Mr. Rossio.

STATEMENT OF ROBERT D. ROSSIO, PRESIDENT AND CHIEF EXECUTIVE OFFICER, LINDSAY OLIVE GROWERS, INC., AND PRESIDENT, THE CALIFORNIA OLIVE ASSOCIATION

Mr. Rossio. Thank you. I will only highlight some of the remarks that I'd like to emphasize in the testimony that I have provided.

I am president of a trade association in California which represents all of the remaining ripe olive processors in the State of California. There are seven of us. I also speak as president and chief executive officer of Lindsay Olive Growers, a 416 member grower-owned cooperative in California, so I am very sympathetic to my cooperative friends from wherever they may be in their endeavors to produce something at a better cost or enjoy a better margin.

Our industry is a small one. We employ about 1,500 to 1,600 people in our plants on a year-round basis, double that at our seasonal peak. Our growers may employ from 10,000 to 15,000 agricultural workers statewide depending on crop conditions.

We are not anxious to see any new producer be given an incentive as strong as tariff-free entry to our market. On ripe olives, tariff free means about $100 a ton. At 30 cents a gallon on green stuffed, Spanish style, it is about the same kind of money, about $100 per ton.

The U.S. grower if he has to reduce his fruit value by $100 a ton to meet this kind of incoming competition, cannot survive with $100 per ton less for his olives in California.

In addition, present exchange rates so strongly advantage the foreign producer that he would need no further incentive at all to enjoy a substantial advantage over the U.S. producer. We keep being told that interest rates are coming down and that the situation will reverse itself but for about 4 years now, that hasn't really happened, and we are still waiting for the time of the reversal.

This incentive alone provides about a 30-percent purchase value over the present domestic price list.

We make no attempt to compete on a broad front with foreign producers of Spanish style olives on the east coast or in the Midwest. Indeed, the suggestion this morning that we can ship olives to Israel is ridiculous. I can hardly ship to Detroit.

The California producers who do try to send product, taking green Spanish style olives, who do try to send product to the Midwest or the east coast do so only to maintain their total volume at the expense of profit. They cannot make a profit at the east coast and Midwest selling prices and we see no way that Israel can be advantaged $100 per ton over Spain, over Morocco, over Mexico without severe repercussions in the United States and in the Canadian marketplace.

In 1980 we had over 40,000 bearing acres in California. Today, we have about 32,000 bearing acres. Israel, we understand, has about 35,000 bearing acres. They enjoy a much higher consumption rate than we do in this country, but I am sure that they hope to be able to see a substantial amount of that output duty free in the United States.

There are many, many other countries besides Israel which, if given the signal, would love to have an opportunity to sell duty-free olives in the United States, among them Morocco, Portugal, Spain, Italy, Greece, Mexico, and Brazil. It is a long list. And we are, I think, rightly fearful of the precedent that would be set were we to see our olives included in a tariff-free area now.

In Tulare County, CA, I am the second largest employer. I am the biggest private employer. The first biggest employer is Government, but we are the second largest. We are the biggest private employer in that county. We do about $53 million annually at our income level from olives. This would translate in our industry to about $140 to $150 wholesale dollars at the processor level. Already we have seen people from Spain and other countries come in and take off about $12–$15 million of our available market on ripe olives which has traditionally been the mainstay of the California olive industry. Spain, for years, has dominated the Spanish style olive industry in the United States. Most recently, I believe, their imports were about 44,000 metric tons. That is another thing that concerns us, because we suspect that Spain thinks that they own the green olive market in the United States and if the United States is going to give a competitor of theirs a $100-a-ton advantage, something fierce is going to happen in the marketplace, and I think that what is going to happen is, it is going to snap back on the California farmer, the California processor and the California cooperatives like my own.

Olives, as someone else at this table mentioned about this industry, olives in our industry is about our only business. We are not into multiproduct plants in the olive industry with only one large exception in the California group. Most of us are small processing firms, and we are entirely tied to olives, and our future in olives is entirely tied to the strength of our U.S. market, the protection of our market, and the extent to which our Government provides incentives to predators outside of our market.

Mr. DOWNEY. The Chair recognizes Mr. Russo.

Mr. RUSSO. First of all, I want to thank the panel for their information. I realize that there are many sectors of our economy that are concerned about the possible effect of a free trade zone with Israel, and that members of the panel and people we have heard from earlier and probably later on will be looking for specific exceptions on grounds that this zone will be detrimental to their industry. I have a tremendous amount of respect for the gentleman from New York who is one of my dearest friends in Congress, whom I rarely disagree with and who I know to be a very effective and conscientious Member. All his motives are very strong and right, but I have to raise my concern with this proposal and share it with my colleagues.

My concern is that we will be setting a potentially dangerous precedent in using the free trade zone in this particular case. Are there not other countries with economies less strong than Israel or experiencing severe hardship including inflation and massive debt? Everyone can recognize that such countries as Mexico, Brazil, and mainland China—a free-trade zone of this nature might benefit their economies. Yet, there is no question in my mind that we, as a country, could not afford a universal policy of free trade zones because of its impact on our own economy without legislating a tremendous amount of product exemptions. Yet, that is the precedent that this legislation is likely to set.

My concern does not grow out of any reluctance to provide assistance to Israel, but in establishing a free trade zone with one country are we not telling these other countries that we consider their economic health less important, that they are not as important to our national interest as Israel?

My concern is with the mechanism we are using. It is one thing to adopt a limited development tool such as CBI or GSP where 90 percent of Israel's products come in under GSP for poorer countries with a trade benefit as a component. But it is quite another thing to begin setting up bilateral arrangements which appear to tamper with rational nondiscriminatory tariff policy. I would ask my colleague from New York and other colleagues on the committee that if the notion of a free trade zone is really something we would like to see applied on a more general basis. That is a question we all should give some thought to as we continue our examination of this proposal. Other countries may state, "Look, we know Israel is important to the United States economically, national and security interests, but we are important, also." There are other countries who are entering into fields that may challenge our industries, too, and they may want to use free trade zones if we grant this free trade zone. They will use that as a precedent to say, "Well, it's been done once before."

So when we look at the free trade zone for Israel, we have to look at its potential effect on our overall trade policy with not just Israel but with other countries who may be similarly situated who are looking for help with their economies by entering our country's market.

So I think we have to be very concerned on how we proceed on this particular issue and need to ask ourselves these broad questions. As the chairman knows, we agree on many issues, but I am very concerned about the precedent we are setting, the mechanism that we are using. Maybe it turns out that as we study this issue, we will find that free trade zones are the way we ought to go generally. I am sure maybe Sam Gibbons would love that.

Mr. Thomas. If the gentleman would yield on that point. I don't know whether he was here and heard the testimony of Mr. Zollinger who met last week with the Ambassador for trade. He indicated to us that Mr. Brock clearly telegraphed that there would be additional free trade areas. So if the concern of the gentleman from Illinois is that it would just be for Israel and the others would be on the outside looking in, I can assure him that apparently USTR feels that this is a device that they are going to use over and over again. And I agree with you completely that if this is not the only one, then we should look at it even if it is the only one, but if it is the first of many, we ought to get this one right.

Mr. Russo. Well, my concern is the tool of using a free trade zone as a means to accomplish something that may be very detrimental to the import sensitive industries within our own borders. We have a group of individuals here from olives to roses to garlic to tomatoes, many of these things which I like and enjoy myself, who are going to be impacted by this particular free trade zone. Then you are going to have other countries asking for free trade zones. You are going to have steelworkers coming in and a lot of different other individuals who say you are going to be opening up import sensitive markets to competition from free trade zones, so I think the concept of free trade zones may create a mine field for us in the future. So I am very concerned with the concept, not that it is for Israel or that it would be for Mexico or Brazil, but the concept of a free trade zone as a way to deal with trade policy.

Right now the biggest complaint, and you heard it this morning, is the fact that we in this country don't enforce our own trade remedy laws. We dealt with that on this committee trying to pass legislation to strengthen enforcement. Well, if we put laws on the books and then evade them by establishing free trade zones, what kind of message are we sending to our own people who say, "Look. You are our Government. We pay taxes to have you protect us and what you are doing is setting up mechanisms that we can't even use. Meanwhile, you are setting up free trade zones to let other competitors come in and kill our markets." I don't want to be a protectionist, but there are some concerns in this country that we ought to be sensitive to.

I thank you for allowing me to make that statement.

Mr. Downey. Mr. Stewart, let me just answer your question. It is my intention to make sure that it is clear that all existing trade remedies be incorporated into the law.

Mr. Stewart. Thank you very much.

Mr. Downey, may I please ask that at the place where my remarks will appear in the transcript that I be allowed to say that I am accompanied here today by a delegation of rose growers. Mr. Louis D. Reinegar of Reinegar Bros., Inc. of Hatboro, PA, who is here as a spokesman for the Pennsylvania growers. Mr. Christopher Chip Wright of N.L. Wright Co. in Cranbury, NJ, who is here as chairman of the Import Action Committee, speaking for all concerned rose growers. Mr. James Krone is the executive vice president of Roses, Inc., and Mr. J. Philip Carlson an expert in Government relations who is counseling the industry.

Thank you, Mr. Chairman.

Mr. DOWNEY. The record will also show that you are resplendent today with roses adorning your lapel.

Mr. Jenkins.

Mr. JENKINS. Thank you, Mr. Chairman. I will not have any questions. I want to apologize to the panel for not being here for your entire testimony.

I also want to indicate to the chairman that I have some of the same concerns that Mr. Russo has previously expressed. I want to reserve some of my questions to the textile and apparel witnesses who will be testifying next. If some accommodation is not made in the textile apparel field and possibly others, I will have to oppose the bill on the House floor. Thank you, Mr. Chairman.

Mr. DOWNEY. Thank you, Mr. Jenkins.

Mr. Thomas.

Mr. THOMAS. Very briefly, Mr. Chairman, I do want to thank you for your continued indulgence in allowing me to participate.

Mr. Stewart, you list in your testimony 10 specifics, and you look at the fact that we have been searching for subsidies. You have got 10 specific ones listed that you say are available or are bestowed upon Israeli rose growers. Are these unique in your investigation or do you have any knowledge indicating that these would be unique to the rose growers or would they be available to other types of agriculture?

Mr. STEWART. With the exception of those that involve direct cash payments to growers for building greenhouses and for building fresh cut flower packing houses, the other subsidy programs in terms would be appliable to any sector of agriculture, horticulture production in Israel in my opinion, and each of these programs has been found to constitute a countervailable subsidy by the Commerce Department.

Mr. THOMAS. So the fuel grants, the long-term loans, the preferential short-term financing, the minimum price program would be available to other types of agricultural activities?

Mr. STEWART. Yes, Congressman Thomas. For example, the long-term loans to Agrexco and the capital fund granted to Agrexco. Agrexco is a 50-percent grower-owned and 50-percent Government-owned marketing organization that exclusively handles the exportation of agricultural commodities including eggplant, peppers, tomatoes, strawberries, avacados, grapes, dates, pecans, roses, carnations, and other flowers, fruits, and vegetable crops. And that exportation is to the United States as well as other countries. Thus, those particular products, when imported into the United States are benefited by those subsidies.

Mr. **Thomas**. And finally, Mr. Chairman, so you understand the relationship and concern of a relatively few number of Californians, Mr. Rossio indicated that he is the second largest employer behind government in Tulare County. Earlier, Mr. Chairman, Mr. Zollinger indicated that Fresno County is the largest tomato producer and, obviously, I have some concerns coming from my principal county, Kern County.

I, at one time, represented a portion of Tulare County. But these three counties, Kern, the most southerly, Tulare, and Fresno represent a growing area of about 200 miles and that clearly is the largest private sector producer in Tulare County and tomatoes being the principal crop in Fresno County, cotton being one of the principal crops in Kern County. But taking together these three counties, Fresno usually No. 1, Kern and Tulare trading off between No. 2 and No. 3, but the three of them are always the top three agricultural counties in the United States, Mr. Chairman, that collectively specific agriculture amounts to a tremendous amount of money, not just in terms of our domestic market, but also in terms of our exporting market. But if you can't survive in the domestic market, it is a little difficult to survive in the exporting market.

So, perhaps the chairman would like to get out to California to view firsthand Kern County, Tulare County, and Fresno County and I invite you tomorrow——

Mr. **Downey**. Did you ask me a question, Bill? I'm sorry.

Mr. **Thomas**. No, I was talking to you for 10 minutes.

Mr. **Downey**. I thank the members of the panel.

The committee will now hear from the American Fiber, Textile, Apparel Coalition, Mr. Stanley Nehmer.

STATEMENT OF STANLEY NEHMER, PRESIDENT, ECONOMIC CONSULTING SERVICES, REPRESENTING AMERICAN FIBER, TEXTILE, APPAREL COALITION

Mr. **Nehmer**. Mr. Downey, Mr. Jenkins, for the record, my name is Stanley Nehmer. I am here on behalf of the American Fiber, Textile, Apparel Coalition, a coalition of 21 trade associations and labor unions accounting for virtually all of the fiber, textiles and apparel producers in the United States. My statement has been submitted for the record. I will summarize it if I may.

Mr. **Downey**. Certainly.

Mr. **Nehmer**. AFTAC is opposed to a United States-Israel free trade area whether it is in the form of the House bill or in the form of the Senate bill and there are some very, very good reasons for the opposition of the textile and apparel industry of this country to a free trade area with Israel.

First of all, this industry is hurting today from imports as it has never been hurt before.

In 1983, imports of textiles and apparel rose 25 percent over the level of 1982. During the first 4 months of this year alone, imports of textiles and apparel rose 49 percent over the same period in 1983. The estimate now is that 1984 imports will be double the level of just 4 years ago. Some three-quarters of a million textile and apparel jobs have been permanently lost in this industry because of imports. The trade deficit in textiles and apparel in 1983 was $10.6 billion. That is approximately a sixth of the total U.S. trade deficit. The estimate for the textile and apparel trade deficit for this year is approximately $15 billion.

The injury being caused by imports to this industry is so bad that yesterday, I am pleased to note, some 47 Members of the House of Representatives cosponsored H.R. 5823 to freeze imports of textiles and apparel at the 1983 level and to provide for no more than a 1½-percent per annum annual growth rate. Yet, despite the adverse import impact on this industrial complex, our Government is talking about providing duty-free treatment for imports from Israel and we know very clearly that what the administration has in mind is not Israel. Israel is being used as a stalking horse by this administration.

Ambassador Brock has already said that he's approached the Asean countries, of Singapore, Malasia, Indonesia, Thailand, and the Philippines, about entering into free trade negotiations. There are other reports indicating that he would welcome having the concept applied to other more advanced developing countries because of concern about the possibility of their losing GSP treatment. So this is not simply about Israel. But even Israel presents a problem for our industry.

Israel exports to the United States in 52 separate categories of textiles and apparel. Israel is a small exporter, certainly, compared to Hong Kong or Korea or Taiwan or China, but there are 109 textile and apparel categories. Israel is in 52 of them, and the Department of Commerce considers Israel to be a major supplier in four of them. The increase in imports from Israel has been substantial, percentage-wise. In absolute terms, certainly it has been small.

I have appended to my testimony an article from Business Week. I would also like to submit for the record an airgram, an unclassified airgram from the American Embassy in Tel Aviv which talks about the intentions of the Israelis insofar as the development of their textile and apparel exports to the United States. We will make that available subsequent to the meeting.

[The airgram follows:]

EXHIBIT B

DEPARTMENT OF STATE

AIRGRAM

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HANDLING	CLASSIFICATION	MESSAGE REFERENCE NO.
ROUTINE (91)	UNCLASSIFIED	A-24

TO: Department of State

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FROM: Amembassy TEL AVIV DATE: 17 AUG 82

E.O. 12356 ~~XXXX~~ N/A
TAGS: ECRP, IS
SUBJECT: Industrial Outlook Report 1981-1982, Textiles (CERP 0521)
REF: 10 FAM 125

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1. Summary: Israel's textile and clothing industry first undertook large scale operations in the mid 1950s, with the construction of several large plants. By 1958, more than 1,500 firms employed 19,000 people. Since that time the industry's fortunes have fluctuated. Unable to compete with other developing countries' low-cost, semi-skilled labor, Israel nonetheless worked to maintain the industry as a source of employment for new immigrants and unskilled labor. This philosphy carries through today as Polgat, the country's largest textile firm, provides employment for newly arrived immigrants and local Arab workers. Israel's textile industry is heavily dependent on exports. Despite the recent slump in the worldwide market Israeli producers remain optimistic. A number of plants are being expanded. Dimona Textiles, for instance staged a widely publicized opening of its refurbished plant in May, 1982. It announced that it plans to begin a large campaign aimed at the American market and expects to manufacture 70 tons of towels monthly as well as 100 tons of yarns during the same period. Other factories are following suit. American firms can profit from this situation by providing equipment for the sector's modernization. End Summary.

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2. The Industry 1980-1981. There are approximately 1,300 textile and garment making enterprises in Israel, employing about 49,000 people. Over half of all plants are clothing manufacturers with about 29,000 employees. This is a drop of about 1,000 employees from 1979. The country's 470 textile plants employ about 17,000 persons. Of the total plants, 1,208 have one hundred or less employees. Leather production, a relatively new industry is the smallest branch of the clothing and textile industry with 3,000 employees in small, export-oriented plants. Overall, the clothing industry exhibited a decline in the number of total employees, reflecting a drop in the industry's exports.

EMPLOYEES IN THE CLOTHING INDUSTRY 1979-1980

Branch	Employees (thousands)	
	1980	1979
Textiles	17	18
Clothing and Made up Articles	29	30
Leather and its Products	3	4
TOTAL	49	52

SOURCE: Central Bureau of Statistics, Statistical Abstract of Israel, 1981, p. 417.

Despite the vagaries of the international market, Israeli officials predict that the textile and clothing industry will continue to provide employment opportunities. During a recent "Fashion Week", industry officials predicted that employment would pick up as new facilities such as Dimona Textiles' new plant are built. However, lower than average wages in the industry remain a problem . According to the Israeli Central Bureau of Statistics, the average daily wage index in 1980 was 430 (with 1978 equalling 100). The clothing workers wage index in the same period was 360, textiles 389 and leather 419. The industry has made a conscious decision not to compete with low cost labor in Asia and Africa and is turning its attention to high quality goods for the export market. The GOI has encouraged this move by

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spotlighting clothing manufacturers, offering designer fellowships and providing export incentives. Textile production experienced difficulties in 1980-1981 as the index of output indicates. The index of the garment industry output (1978 equals 100) held steady at 100 in 1979 and then rose slightly to 104 in 1980. Output of leather and its products dropped in both years to 87 in 1979 and 85 in 1980. Textile production fell from 103 in 1979 to 96 in 1980. Total tonnage of cottage yarn produced in 1980 rose slightly over the previous year: 20,013 tons in 1980 compared to 19,182 tons in 1979. However, both combed wool yarn and carded wool yarn production decreased. (1981 figures not available.)

- -	- -	1979 (IN TONS)	1980 (IN TONS)	PERCENT CHANGE
Cotton yarn	-	19,182	20,013	4.3
Combed wool yarn		5,819	5,354	-8.0
Carded wool yarn		2,555	2,251	-12.0

Source: Central Bureau of Statistics: Annual Statistical Abstract 1981, p. 437

3. Exports. Israeli textile exports ranked third of all its industrial exports, excluding diamonds, in 1980-1981. As in previous years, metals and electronics were first and chemicals second. Transport equipment was fourth. The textile industry has had a history of strong export growth. In 1959, textile and clothing exports amounted to 11.3 million dollars. By 1980, the value of exports had increased to 473.4 million dollars. Of that figure 325 million dollars was clothing and finished textile products from Israel's export oriented fashion industry. The following year, 1981, total clothing and finished textile exports dropped dramatically to 284 million dollars. Overall textile exports fell accordingly. Despite a disappointing year in 1981, the Israeli fashion industry has high hopes for the future. Yoram Radoshitsky, the Chairman of the Fashion Center told reporters at Israel's Fashion Week in February 1982, that it is a "feasible goal to triple our exports if we can surmount our internal economic problems". Radoshitsky and other textile officials noted "the depression in textiles is international. It

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doesn't only affect Israel; our industry is healthy and strong." For the first time in textile fashion exporting history, the U.K. took the lead in 1981 as Israel's largest market outlet with 33.8 percent of domestic fashion goods sold in Britain. The UK had previously been second to Germany. The U.S., once Israel's prime market, only captured 4.5 percent of total eports in 1981. This is a slight drop over previous years. Textile officials are optimistic that "we will be as successful as before in the U.S. market". "Before" was six years ago when the U.S. was Israel's chief fashion client.

4. Export Promotion. The Israeli fashion and textile industry, led by the Fashion Center of the Export Institute, mounts a vigorous and highly visible export promotion campaign. The emphasis is on high quality, modern design fashion. Two "Fashion Weeks", one for spring/summer, one for autumn/winter wear are held annually in Tel Aviv. They are accompanied by a splashy media campaign, social events and strong GOI support. The effort is paying off. After a disappointing year in 1980 - some exhibitors closed shop early - the two 1981 shows were highly successful. Gottex, the Israeli company noted for its bathing suits, announced that both Bloomingdale's and Macy's tripled their orders from 1980. Other companies were equally satisfied. The shows attracted buyers from the U.S., Canada, the U.K., Germany, France, Holland, Switzerland, Italy, Belgium and South Africa. Textile exporters participate in many trade fairs, including the Parisian Pret-a-Porter fair and the Frankfurt International Exhibition. Many of Israel's trade offices abroad mount fashion weeks, sponsored in part by the Ministry of Industry and Trade. Promotional events have been particularly successful in New York and London. Plans are under way for participation in a number of trade fairs in the current fiscal year.

5. Imports. While Israel is a net exporter of textiles and clothing, it is also a large and growing importer. The value of 1980 imports was 238.9 million dollars, an 8 percent jump. This is a slowdown in the rate of growth in the previous year, but a respectable showing nonetheless. The growth in the U.S. share of these imports during the last two years is impressive: The U.S. share rose from approximately 35.3 million dollars

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in 1980 to approximately 61.4 million dollars in 1981, a healthy 72 percent increase. As in the past, the best opportunities for U.S. manufacturers to penetrate the Israeli market seem to be in speciality items, such as sportswear. Several quality Israeli exports, such as Gottex swimwear, are made with imported fabrics and exported as high value added goods.

LEWIS

Attached

Enclosures:

1. Israeli Exports of Clothing and Finished Textile Products, Including Fur and Leather, 1981, U.S. $ 000

2. Israeli Exports of Clothing and Finished Textile Products, Including Fur and Leather, 1978, 1979, 1980, U.S. $ 000

3. Textile Raw Material and Apparels Imports, 1980-1981, U.S. $ 000

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ENCLOSURE 1 of 3 Encl.

ISRAELI EXPORTS OF CLOTHING AND FINISHED TEXTILE PRODUCTS, INCLUDING FUR AND LEATHER, 1981, $ 000

	U.S.	E.E.C.	OTHER COUNTRIES	WORLD-WIDE (100%)
Total Fashion and Textile Exports (percentage)	12,780 (4.5)	247,080 (87)	24,140 (8.5)	284,000
Knitted and Woven Garments (percentage)	10,630 (4.8)	207,370 (93.7)	13,300 (6.0)	221,300
Other Textile Products (percentage)	900 (2.84)	23,210 (73.44)	7,490 (23.7)	31,600
Leather Garments (percentage)	350 (3.8)	6,950 (75.54)	1,900 (20.65)	9,200
Fur Garments (percentage)	900 (12.67)	4,900 (69.01)	1,300 (18.3)	7,100
Knitted Fabrics (percentage)	- (-)	4,650 (96.87)	150 (3.12)	4,800

Source: Export Institute, Tel Aviv

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Enclosure 2 of 3 Encl

ISRAELI EXPORTS OF CLOTHING AND FINISHED TEXTILE PRODUCTS INCLUDING FUR AND LEATHER, 1978, 1979, 1980
IN US$ 000

Branch	World-wide			U. S.			E. E. C.			Other countries		
	1978	1979	1980	1978	1979	1980	1978	1979	1980	1978	1979	1980
Total exports (percentage)	176260 (100)	233142 (100)	325374 (100)	35828 (20)	21709 (9)	16538 (5)	121891 (69)	187210 (80)	280324 (86)	17541 (11)	21223 (11)	28512 (9)
Knitted & Woven Garments (percentage)	132915 (100)	182752 (100)	237909 (100)	25456 (19)	17427 (9)	14074 (6)	95145 (72)	148942 (82)	230898 (86)	12314 (9)	16383 (9)	19937 (8)
Other Textile Products (percentage	19886 (100)	24520 (100)	58110 (100)	4166 (2)	1256 (5)	825 (2)	13493 (68)	20967 (86)	54700 (94)	2227 (11)	2297 (9)	2585 (4)
Leather Garments (percentage)	12770 (100	12237 (100)	9755 (100)	5190 (41)	2298 (19)	842 (9)	6768 (53)	8865 (72)	8171 (84)	812 (6)	1074 (9)	742 (7)
Fur Garments (percentage)	9548 (100)	10485 (100)	12510 (100)	1010 (11)	707 (7)	782 (6)	5904 (62)	6382 (61)	7115 (57)	2634 (27)	3396 (32)	4613 (37)
Knitted Fabrics (percentage)	1141 (100)	3148 (100)	7090 (100)	6 (1)	21 (1)	15 (0)	581 (51)	2054 (65)	6440 (91)	554 (48)	1073 (34)	635 (9)

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ENCLOSURE 3
Page 1 of 8 pages

TEXTILE RAW MATERIAL AND APPARELS IMPORTS 1980 and 1981 (in US$ 000)

COMMODITY	1981			1980		
	E.E.C. CNTRS.	U.S. SHARE	TOTAL WORLD-WIDE	E.E.C. CNTRS.	U.S. SHARE	TOTAL WORLD WIDE
Synth yarn modif. no ret.	2,798	2,147	6,215	1,636	3,365	6,271
Synth fiber yarn, no ret.	-	-	-	13,797	5,364	30,493
Artificial yarn up to 60-dnier, not retail	90	-	92	95	-	95
Artificial fiber yarn not for retail	14,579	2,931	27,808	1,522	149	1,810
Synth monofil yarn	397	25	470	281	42	375
Tire cord fabrics	1,137	403	1,540	1,132	244	1,484
Fabrics of synth fiber	4,497	2,167	8,318	3,481	1,993	6,568
Other fabrics of artificial fibers	2,149	153	2,658	1,542	292	1,903
Wool, greasy or fleece washed	117	-	15,094	701	-	15,874
Wool, not carded or combed	814	-	1,766	1,318	-	2,427
Fine animal hair not carded, not combed	581	-	1,212	58	-	385

Continued page-2 of encl. 3

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ENCLOSURE 3

COMMODITY	1981			1982		
	E.E.C. CNTRS.	U.S. SHARE	TOTAL WORLD-WIDE	E.E.C. CNTRS.	U.S. SHARE	TOTAL WORLD-WIDE
Wool tops, other	579	-	1,462	412	-	1,078
Wool or animal hair, combed, carded	151	2	267	198	-	424
Yarn of carded wool, not for retail	803	-	944	631	-	635
Yarn of combed wool, not for retail	528	-	733	838	-	1,096
Woven fabric of wool, fine hair	3,611	40	3,737	2,097	35	2,186
Flax, not span, tow and waste	153	-	163	181	-	194
Woven fabrics of flax or ramie	62	36	97	45	15	365
Cotton, not carded or combed	15	30,875	30,890	-	6,382	6,397
Cotton linters	994	1,625	2,619	970	550	1,533
Cotton carded or combed	157	-	204	149	109	311
Cotton yarn not for retail sale	11,107	1,682	19,287	11,568	1,649	18,135
Cotton fabrics, other N.E.S.	6,276	896	12,785	3,923	1,635	37,794

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ENCLOSURE 3

COMMODITY	1981			1980		
	E.E.C. CNTRS.	U.S. SHARE	TOTAL WORLD-WIDE	E.E.C. CNTRS.	U.S. SHARE	TOTAL WORLD-WIDE
Man-made synth fiber polyakrilonitr.	139	-	1,924	292	-	2,090
Man-made fiber synth N.E.S.	3,513	1,953	6,955	2,421	1,656	4,574
Man-made fiber, artif. not for spin	138	15	388	226	31	527
Synth fiber to man-made fiber, N.E.S.	1,339	321	2,001	693	78	1,301
Artif. fiber to manufac. man-made fiber	720	124	2,511	1,767	184	2,143
Synth combed polyakrilontril	1,516	-	1,622	1,939	158	2,194
Man-made synth fiber for spinning	221	23	344	881	-	1,173
Polyakrilontril yarn, not for retail	3,866	52	4,159	1,886	16	1,951
Man-made synth yarn, not retail, N.E.S.	6,027	999	12,090	5,175	959	10,245
Yarn man-made fiber. not retail	619	26	666	901	-	680

COMMODITY	1981			1980		
	E.E.C. CNTRS.	U.S. SHARE	TOTAL WORLD-WIDE	E.E.C. CNTRS	U.S. SHARE	TOTAL WORLD-WIDE
Woven fabrics of synth fiber	7,544	3,586	15,527	5,807	1,836	10,992
Woven fabrics of artif. fibers	1,111	163	1,472	929	179	1,324
Vegetable textile fabrics	389	-	444	376	-	428
Yarn of jute	277	-	324	279	-	358
Woven fabrics of Jute	175	-	400	332	-	534
Carpets, carpeting and rugs, knotted	206	-	1,249	133	140	947
Carpets, carpeting, rugs, etc. N.E.S.	597	349	1,092	480	245	945
Corduroy	2,046	1,054	2,814	850	1,203	3,564
Woven pile, fabrics, etc., N.E.S.	4,852	695	5,621	4,657	327	5,129
Narrow fabrics N.E.S.	1,000	683	1,825	-	-	-
Narrow fabrics of warp not waft N.E.S.	85	50	143	1,800	431	2,023
Chemille gimped yarn N.E.S.	258	35	369	203	-	215

COMMODITY	1981			1980		
	E.E.C. CNTRS	U.S. SHARE	TOTAL WORLD-WIDE	E.E.C. CNTRS.	U.S. SHARE	TOTAL WORLD-WIDE
Embroid in strip cont. synth material	280	51	649	75	119	362
Embroidery in motifs	50	66	537	15	26	373
Hygenic tampons of cotton wool	1,246	199	1,445	1,027	105	1,132
Wadding and articles, N.E.S.	38	7	103	273	443	726
Felt fabrics, N.E.S.	757	132	1,002	646	102	774
Bonded fabrics, other	2,031	793	3,052	1,356	206	1,789
Bonded fiber fabrics and articles	402	38	473	106	-	189
Twine cordage synth	208	300	623	413	202	644
Nets, netting fish, nets of yarn	6	11	249	273	-	519
Textile fabric, coated plastic material	2,288	289	2,738	1,594	336	2,039
Textile fabric impreg. coat. plast. N.E.S.	121	445	639	84	294	435
Rubberized textile fabrics, N.E.S.	573	17	592	1,058	28	1,089

COMMODITY	1981			1980		
	E.E.C. CNTRS.	U.S. SHARE	TOTAL WORLD-WIDE	E.E.C. CNTRS.	U.S. SHARE	TOTAL WORLD-WIDE
Textile fabric coated studiobackcloth	281	134	454	951	106	518
Elastic fabrics of textile rubber material	563	17	872	539	16	1,304
Textile fabric, cut to size, N.E.S.	360	305	882	366	17	584
Textile articles used in machinery	1,087	115	1,722	1,430	244	2,203
Knit pile fabric non-rubber elastic	3,111	735	4,274	3,767	600	3,740
Lace work fabric	1,054	66	1,229	1,554	90	1,671
Knitted crochet fab. not elastic	11,418	959	13,235	3,427	625	13,826
Stocking, socks, ankle socks, etc	210	225	821	105	117	463
Shirts knit not elastic, not rubber	223	214	664	177	19	532
Outer garment knit no elastic N.E.S.	1,051	179	2,198	905	44	1,263
Other articles knitted crocheted	86	21	949	39	35	537

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ENCLOSURE 3

COMMODITY	1981			1980		
	E.E.C. CNTRS.	U.S. SHARE	TOTAL WORLD-WIDE	E.E.C. CNTRS.	U.S. SHARE	TOTAL WORLD-WIDE
Elast. fabrics knitted crocheted	634	-	684	280	-	311
Men's and boys' outer garments	467	797	2,306	627	388	1,984
Shirts for women, girls, and infants	499	229	1,579	175	64	620
Outer garments for women, girls, N.E.S.	1,782	481	4,606	798	151	1,800
Shirts for men and boys	59	34	395	149	-	413
Brasiers, other	617	37	736	330	19	490
Gloves	13	9	152	72	245	513
Made-up accessories for apparel artif.	443	104	585	250	21	293
Blankets, N.E.S.	371	51	573	276	101	633
Bed, bath, kitchen linen, curtains	1,113	684	2,461	834	997	2,442
Used bags, sacks, NES	732	-	750	-	-	-
Sacks, packing bags, N.E.S.	820	-	1,157	421	-	590

Continued Page-8 of Encl. 3

COMMODITY	1981			1980		
	E.E.C. CNTRS.	U.S. SHARE	TOTAL WORLD-WIDE	E.E.C. CNTRS.	U.S. SHARE	TOTAL WORLD-WIDE
Made-up textile articles, N.E.S.	219	85	404	304	106	541
Old clothing, other textile articles	57	418	510	17	357	436
TOTAL	123,503	61,357	258,601	103,365	35,490	238,948

Source: Bureau of Statistics, Jerusalem
Preliminary figures

Mr. **Nehmer.** I think we ought to note that although Israel's wage rates are higher than those in the Far East, they are roughly half of what they are in the U.S. textile and apparel industry. With duty-free access to the United States and with lower wage rates than we have insofar as these labor-intensive industries are concerned, Israel will certainly be able to increase its exports even further.

We are also concerned about the fact that with the free trade area there could well be created a major loophole with regard to the implementation of the 27 bilateral agreements that the United States has with other countries under the Multifiber Arrangement. There would be no control on trade in these products coming from Israel, and as the Customs Service has reported very frequently insofar as their Operation Tripwire is concerned, the amount of circumvention of controls on textiles and apparel is incredible.

By saying this, we are not questioning the integrity or the honesty of the Israeli Government or Israeli customs officials, but they simply don't have the resources to monitor the ability of exporters from the Far East to move through Israel, possibly even with a small amount of processing in Israel, to take advantage of a free trade area.

Our next point is that the trade policy aspect of this proposal represents bad trade policy. The trade policy of the United States has been based upon multilateralism for many, many years. Ambassador Brock, for a long time, has been talking about the importance of defending the multilateral trading system and now, all of a sudden, we are on a bilateralism kick. This is not helpful, in our judgment, to the future of American trade policy.

I want to make a comment about the Senate Finance Committee's bill that they reported out. During the course of the committee's markup it became clear from statements made by the Trade Representative that other countries with which the United States has treaties of friendship, commerce, and navigation as well as those that enjoy most-favored nation status with the United States could claim the same duty-free status as the administration plans to negotiate with Israel. This would be one of the fallouts of such a free-trade area arrangement.

Foreign political considerations could well lead to a policy decision to acquiesce in what some of these FCN and MFN partners might seek. Thus, the stakes here are much broader than an arrangement with Israel and they are terribly serious for the U.S. trading position. We do not consider that the language which was adopted by the Senate Finance Committee to try to meet this particular problem really is an effective solution.

Finally, let me say there is a long history of the U.S. Government's concern with and appreciation of the textile and apparel industries serious important problem and the importance of governmental action to deal with this problem. We know there is a Multifiber Arrangement under which many bilateral agreements have been negotiated. Textiles and apparel are exempt from the duty-free provisions of the Generalized System of Preferences and the Carribean Basin Initiative. There is a textile-apparel policy implementation program announced by the White House on December 16, 1983, and an Executive Order by the President on May 9, 1984, establishing more efffective implementation of the import program. There certainly is more than ample precedent for recognizing the import sensitivity of the domestic textile and apparel industry. We believe there is, in fact, a long history to indicate that it is in the national interest to do so.

AFTAC believes that the establishment of a free trade area between the United States and Israel could have a devastating economic impact on the domestic textile and apparel industry and we urge the subcommittee to reject legislation authorizing the negotiation of a free-trade area with Israel. Thank you very much for giving me this time on behalf of AFTAC to appear here, Mr. Chairman.

Mr. DOWNEY. Thank you, Mr. Nehmer.

[The prepared statement follows:]

STATEMENT OF STANLEY NEHMER, PRESIDENT, ECONOMIC CONSULTING SERVICES, ON BEHALF OF THE AMERICAN FIBER, TEXTILE, APPAREL COALITION[1]

SUMMARY

The 21 member organizations of the American Fiber/Textile/Apparel Coalition (AFTAC) listed on the cover page of my testimony oppose the establishment of a free-trade area with Israel for the following reasons:

(1) Such free-trade arrangements have negative implications for U.S. trade policy.

(2) An Israel-U.S. free-trade area sets a precedent for other such arrangements.

(3) The program will benefit Israel far more than it will benefit the United States.

(4) The program will encourage additional imports when the trade deficit is now expected to reach $130 billion in 1984.

(5) There is the problem of transshipments if Israel receives duty-free access to our market.

(6) The program would allow duty-free imports of textiles and apparel—a position which is not only inconsistent with other types of U.S. preferential trading arrangements such as the Caribbean Basin Initiative and the Generalized System of Preferences, but is simply unthinkable in the face of the devastating impact of textile and apparel imports on domestic producers and workers.

Last year textile and apparel imports reached a new record level of 7.4 billion square yard equivalents, a 25-percent increase from 1982. Textile/apparel imports over the past three years have increased by 52 percent. During the first four months of this year, alone, there has been a 49-percent increase in textile/apparel imports over the same period in 1983. Some 750,000 textile and apparel jobs have been permanently lost in this industry because of imports.

Israel has a flourishing textile/apparel industry and has the capacity to damage our already damaged market. Israel exports textiles and apparel to the U.S. in 52 categories and is considered by the Commerce Department to be a major supplier to us in 4 of these categories.

Israel should not receive duty-free access to our market on textiles and apparel products.

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[1] The Coalition consists of: Amalgamated Clothing & Textile Workers' Union, AFL-CIO; American Apparel Manufacturers Association; American Textile Manufacturers Institute; American Yarn Spinners Association; Carpet and Rug Institute; Clothing Manufacturers Association of U.S.A.; Industrial Fabrics Associaton International; International Ladies' Garment Workers' Union, AFL-CIO; Knitted Textile Association; Luggage and Leather Goods Manufacturers of America; Man-Made Fiber Producers Association; National Association of Hosiery Manufacturers; National Association of Uniform Manufacturers; National Cotton Council; National Knitwear & Sportswear Association; National Knitwear Manufacturers Association; National Wool Growers Association; Neckwear Association of America; Northern Textile Association; Textile Distributors Association; and the Work Glove Manufacturers Association.

STATEMENT

I am here today on behalf of the 21 member organizations of the American Fiber/Textile/Apparel Coalition (AFTAC) listed on the cover page of my testimony. AFTAC is a national coalition of labor and management organizations in the U.S. textile and apparel industry. Members of AFTAC are located throughout the nation and produce most of the textile and apparel items made in this country.

The AFTAC coalition opposes the establishment of a free-trade area with Israel for several reasons: such free-trade arrangements have negative implications for U.S. trade policy; an Israel-U.S. free-trade area sets a precedent for other such arrangements; the program will benefit Israel far more than it will benefit the United States; the program will encourage additional imports in a year of record imports, when the trade deficit is expected to reach $130 billion; massive transshipments through Israel will result once Israel is granted duty free access to our market; and last, but not least, it would allow duty-free imports of textiles and apparel—a position which is not only inconsistent with other types of U.S. preferential trading arrangements such as the Caribbean Basin Initiative and the Generalized System of Preferences, but is simply unthinkable in the face of the devastating impact of textile and apparel imports on domestic producers and workers. This is an impact which is worsening daily, even in the presence of existing tariffs, the Multifiber Arrangement and 27 bilateral restraint agreements.

Last year textile and apparel imports reached a new record level of 7.4 billion square yard equivalents, a 25 percent increase from 1982. Textile/apparel imports over the past three years have increased by 52 percent. During the first four months of this year, alone, there has been a 49 percent increase in textile/apparel imports over the same period in 1983. Some 750,000 textile and apparel jobs have been permanently lost in this industy because of imports; yet, our government is seriously entertaining a proposal which would provide for duty-free treatment of textiles and apparel from Israel, and who knows where else once our government sets about negotiating other such arrangements. We have alread heard that the ASEAN countries—Singapore, Malaysia, Indonesia, Thailand, and the Philippines have been approached by the U.S. regarding such an arrangement. Ambassador Brock has been quoted in the press as expressing an interest in talking to some of the advanced developing countries, for instance Korea and Taiwan, about a free-trade arrangement. So this is not simply about Israel.

But even Israel presents a problem for our industry. First, in strictly economic terms, the U.S. had everything to lose and little to gain from this arrangement when one compares the size of our market—the richest market in the world with some 240 million—next to the Israeli market with some 4 million people. Indeed, Israeli officials have been quoted as saying that a U.S.-Israel free-trade area would enable Israel to increase its exports to the United States five-fold. Conversely, Israel's total merchandise imports are only $8.2 billion of which the United States has historically held about a 20 percent share.

But what about U.S. imports of textile and apparel from Israel? Are they significant and can they be expected to increase under this proposal? The answer to both questions is yes. Israel exports a broad range of textile/apparel products—some 52 different categories (see Exhibit A)—to the United States, from high fashion ladies swimwear to continuous man-made fiber non-cellulosic yarn. Israel is a major supplier, as defined by the U.S. Department of Commerce, in 4 of these categories. In 1983, Israel exported to the United States 22 million square yards equivalent, an increase of 165 percent over 1982. Clearly the capacity exists for Israel to export far in excess of this total to the United States if a free-trade area between our two countries is consummated. There are two other documents which I call to your attention which speak quite explicitly to the ability and interest of Israel to increase its exports of textiles and apparel to the United States. The first is a reprint of an article from Business Week magazine (attached to my testimony). The second, which I am submitting for the record because of its length, is a copy of an airgram from the U.S. Embassy in Tel Aviv. Both documents indicate that the primary export market for the Israeli textile and apparel industry is the U.S. market.

Israel undoubtedly has the capacity and interest to increase substantially its textile and apparel exports to the United States. While Israel's wage rates in the textile/apparel sector are above those in the Far East, they are about half the U.S. rate in this sector. The wage rate differential and the duty-free access to our market will offer more than enough economic incentive for Israel's textile and apparel producers to increase exports to our market.

In addition to the ability of the indigenous Isaeli textile/apparel industry to further disrupt and damage our already damaged market, there is very real concern about the creation of yet another loophole for textile and apparel products to enter the U.S. illegally and in contravention of the several international agreements and conventions designed to regulate and control trade in such products. I am referring to the problem of transshipments. If granted free trade status, Israel could become the largest trasnshipment point in the Mid-East. This is not meant to question the integrity or honesty of the Israeli government or Israeli customs officials, but simply to recognize the fact that they do not have the resources to monitor and police such activities effectively. This Subcommittee is well aware that there has been and still is widespread fraud, circumvention and abuse of our textile/apparel import control program throughout the world. To extend the U.S. customs territory beyond our own borders would not only invited, but encourage a continuation and indeed an acceleration of illicit practices.

AFTAC believes that the whole concept of free-trade areas needs a further airing. We seriously question the wisdom of establishing such bilateral trade agreements when our whole international trading system is premised on a multilateral approach. We think the establishment of free trade areas—although authorized under the GATT under certain circumstances—is a serious departure from current trade policy and we wonder, quite frankly, whether this program has been well thought out. We have many serious international trade problems, and the fabric which holds our multilateral system intact is admittedly thin. We wonder if such arrangements which clearly shift our country on a bilateral trade agreement/negotiating track can really benefit what is after all in our best interest—a cohesive multilateral trading system.

The Senate Finance Committee recently agreed to report a bill authorizing free-trade area negotiations with Canada and Israel. During the course of that Committee's mark-up of the bill, it became clear from statements made by the Trade Representative that other countries with which the U.S. has treaties of Friendship, Commerce, and Navigation as well as those which enjoy most-favored-nation status with the United States, could claim the same duty-free status as the Administration plans to negotiate with Israel. This was restated in Ambassador Lighthizer's testimony to this Subcommittee on May 22. This is one of the fall-outs of such a free-trade area arrangement. Foreign political considerations could well lead to a policy decision to acquiesce in what some of these FCN and MFN partners might seek. Thus, the stakes here are much broader than an arrangement with Israel and are terribly serious for the U.S. trading position. We do not consider that the language which was adopted by the Senate Finance Committee to meet this problem is an effective solution.

There is a long history of the United States Government's appreciation of the textile/apparel industry's serious import problem and the importance of governmental action to deal with this problem. As mentioned earlier, there is the MFA under which many bilateral agreements have been negotiated. Textiles and apparel are exempt from the duty-free provisions of the Generalized System of Preferences and the Caribbean Basin Initiative. Finally, there is the textile/apparel policy implementation program announced by The White House on December 16, 1983 and the President's Executive Order of May 9, 1984 establishing more effective implementation of the textile/apparel import program. There is more than ample precedent for recognizing the import sensitivity of the domestic textile/apparel industry. There is in fact a long history to indicate that it is in the national interest to do so.

AFTAC believes that the establishment of a free-trade area between the United States and Israel could have a devastating economic impact on the domestic textile/apparel industry. We urge you, therefore, to reject legislation authorizing the negotiation of a free-trade area with Israel.

EXHIBIT A.—*U.S. imports from Israel, 1983*

[In thousands of square yard equivalents]

	Category and description	*Import quantity*
320	Woven cotton fabrics, n.e.s	7
334	Men's and boys' other cotton coats	1
335	Women's, girls' and infants' cotton coats	14
336	Women's, girls' and infants' cotton dresses	11
337	Women's, girls' and infants' cotton playsuits	65
338	Men's and boys' cotton knit shirts	6
339	Women's, girls' and infants' cotton knit blouses	5
340	Men's and boys' cotton woven shirts	1
341	Women's, girls' and infants' cotton woven blouses	19

Category and description		*Import quantity*
345	Cotton sweaters	3
347	Men's and boys' cotton trousers	2
348	Women's, girls' and infants' cotton trousers	27
350	Cotton dressing gowns	3
352	Cotton underwear	113
359	Other cotton apparel	79
360	Cotton pillow cases	89
361	Cotton sheets	770
362	Cotton bedsheets and quilts	40
363	Cotton towels	517
369	Other cotton manufactures	233
400	Wool tops and yarn	3
410	Woolen and worsted woven fabrics	29
438	Wool knit shirts and blouses	12
444	Women's, girls' and infants' wool suits	2
445	Men's and boys' wool sweaters	108
446	Women's, girls' and infants' wool sweaters	2
459	Other wool apparel	2
465	Wool floor coverings	9
600	MMF textured yarn	202
602	Continuous MMF noncellulosic yarn	14,584
605	Other MMF yarn	239
612	Continuous MMF noncellulosic woven fabric	2
625	MMF knit fabric	11
627	MMF specialty fabric	215
632	MMF hosiery	2,723
634	Men's and boys' MMF other coats	1
635	Women's, girls' and infants' MMF coats	89
636	Women's, girls' and infants' MMF dresses	33
637	Women's, girls' and infants' MMF playsuits	4
639	Women's, girls' and infants' MMF knit blouses	127
640	Men's and boys' woven MMF shirts	10
641	Women's, girls' and infants' woven MMF blouses	17
642	Women's, girls' and infants' MMF skirts	5
644	Women's, girls' and infants' MMF suits	2
646	Women's, girls' and infants' sweaters	49
648	Women's, girls' and infants' trousers	28
650	MMF dressing gowns	9
659	Other MMF apparel	1,130
665	MMF floor coverings	71
666	Other MMF furnishings	21
669	Other MMF manufactures	80
670	MMF flat goods, handbags and luggage	35
	Total	21,859

Note.—Categories with less than One Thousand SYE imports not listed.

[From Business Week magazine]

A U.S. Trade Pact: This Could Be the Year

An old item with a new urgency is on the agenda in U.S. talks with Israel. Since the 1970s, Jerusalem has been pressing for free trade between Israel and the U.S.—a goal that Israeli officials estimate could increase the nation's exports to the U.S. as much as fivefold. While it looked as if Israel might get its way during the Reagan Administration's early days, relations became strained following the Israeli invasion of Lebanon in 1982, and the trade issue was put on hold.

American Presidents, mindful of the pro-Israel lobby, traditionally make major concessions to Jerusalem during Presidential election years. And recent losses suffered by the U.S. and Israel in Lebanon have created a climate of accommodation between the two countries. Indeed, formal negotiations on trade get under way in Washington this month, and officials from both sides are predicting that an agreement will come even before the November election.

PAYING THE PRICE

A trade pact, which requires congressional approval, would give Israeli goods unprecedented access to U.S. markets, benefiting textile makers, citrus-product exporters, and manufacturers of data-processing, office-technology, and telephone equipment. But because the U.S. is Israel's main arms supplier, the trade balance between the two nations is greatly in favor of the U.S. Last year, Israeli exports to the U.S. totaled $1.4 billion; U.S. exports to Israel—including military sales—topped $4 billion. Israeli Commerce & Industry Minister Gideon Patt sees a free-trade agreement "as a way of correcting this imbalance." He predicts that Israeli exports to the U.S. could double within two years and reach $6 billion to $7 billion by the end of the decade.

Tearing down all tariff barriers could have a destructive effect on some of Israel's less competitive industries, including food processing and consumer durables. But Israeli officials are apparently willing to pay that price for the sake of favored access to the huge American market. Jerusalem is also hoping that increased trade with the U.S. will more than compensate for an expected slowdown in export growth to Europe.

FREE OF DUTIES

Israel has had a beneficial free-trade arrangement with the European Community since 1975. But with Spain and Portugal expected to join the EC within two years, Israeli officials fear that their agricultural exports may soon be squeezed out by the new members. At the same time, the "developing country" tariff preferences that the U.S. has been granting Israel are being systematically reduced under U.S. law as Israeli industries become more competitive. But Patt says that the U.S. must keep an eye on European competitors.

Most Israeli exports to Europe have been free of duties, while European products have continued to be subject to Israeli tariffs. Starting in 1987, however, Israel will have to drop its duties on EC products. American goods, specifically nonmilitary items, will "be at a tremendous disadvantage in the Israeli market," says Patt, "unless some sort of arrangement is reached."

Mr. DOWNEY. Mr. Jenkins.

Mr. JENKINS. Mr. Nehmer, I want to express my appreciation to you and to the 21 or 22 organizations that you are representing today in expressing the opposition of your member organizations to this bill. I think that your testimony points up some of the real problems that the apparel and textile industries are facing today. As you indicated in your remarks on yesterday, almost 50 members of the House, including myself, introduced the bill to try to cope with some of the problems that we are now facing. I think if the Israeli free trade zone bill should become law in its present form, we are on one hand attempting to do one thing to textiles and the other hand we are simply taking it away. I don't know what direction we are going, but I want to simply thank you for your testimony. We will see what can be done in the committee.

Mr. NEHMER. Thank you very much.

Mr. DOWNEY. Thank you, Mr. Nehmer.

The committee will next hear from Lori-Nan Kaye, who is the general counsel of Elscint.

STATEMENT OF LORI-NAN KAYE, GENERAL COUNSEL, ELSCINT INC.

Ms. KAYE. Good afternoon Mr. Downey and Mr. Jenkins. I am Lori-Nan Kaye, corporate secretary and general counsel of Elscint, Inc. Elscint, Inc. is the U.S. subsidiary of Elscint Ltd., an Israeli company. The Elscint companies are entirely devoted to the medical diagnostic imaging equipment market. The stock of our parent company, Elscint Ltd., is traded over the counter in the United States and many of our shareholders are American.

Although we have not yet released the 1983 figures, in 1982 Elscint, Inc. dispersed about $6.5 million to U.S. businesses for rent, utilities, communication and travel expenses. As export agent for our parent company, which uses an average of 50 percent American-made components in the manufacture of our products, we purchased, in 1982, about $14 million in goods and supplies from U.S. concerns. Thus we have a very strong concern with respect to trade between the United States and Israel, and we have a rather unique dual perspective of a U.S. business as well as an Israeli business.

Although the imports from our parent company now enjoy duty-free importation under the GSP, inherent in the GSP is a very high degree of uncertainty with respect to whether the competitive need limits will be exceeded in any year. If those need limits are exceeded, the benefits for the succeeding year are lost.

This uncertainty is even higher for a company like Elscint because we are involved in the high-technology market, and a small or relatively small import volume of our products would disqualify us from benefits. The establishment of a free trade area between the United States and Israel would alleviate the uncertainty that we now have with respect to the importation of our products, and would encourage competition in the health care market in the United States. To date, the GSP has been very helpful to us in furthering our efforts to compete and bring affordable health care to U.S. consumers, but without any question a free trade area would be much more valuable.

[The prepared statement follows:]

STATEMENT OF LORI-NAN KAYE, GENERAL COUNSEL, ELSCINT INC.

SUMMARY

1. Elscint, Inc. is the U.S. subsidiary of Elscint Ltd. of Israel, a manufacturer of medical diagnostic imaging equipment, which Elscint, Inc. currently imports into the U.S. duty-free under the GSP.

2. Elscint Ltd. is a corporation whose shares are publicly traded over-the-counter in the United States; many shares are held by Americans.

3. Elscint, Inc., and its subsidiary, Elscint Imaging, Inc., employ about 1,000 American citizens in the United States, and is a U.S. manufacturer of ultrasound equipment which is produced in Boston. At least 50 percent of the component parts in Elscint's gamma cameras and CT scanners are U.S. made.

4. Thus, to the extent that duty-free treatment assists Elscint in becoming more competitive in the United States, many U.S. citizens and businesses profit.

5. The Primary products Elscint manufacturers and sells in the U.S. are computerized tomography (CT) scanners and gamma cameras. Both the CT scanners and gamma cameras contain important design features, and hence diagnostic abilities, that other manufacturers of similar products do not provide.

6. Elscint technology assists in bringing diagnostic treatment to more patients at less cost. The products imported by Elscint are very high-valued items—one CT scanner alone can cost up to $1,000,000. In the aggregate, the duty-free entry saves considerable sums, which savings are then passed on to health care consumers.

7. Under the existing GSP mechanism, it is difficult for Elscint to know whether or not it will exceed the competitive-need limits in any given year. If a free-trade area were established with Israel, the present uncertainty would be removed.

STATEMENT

Members of the Committee, my name is Lori-Nan Kaye. I am the Corporate Secretary and General Counsel to Elscint, Inc. in Boston, Massachusetts.

Elscint, Inc. is the U.S. subsidary of Elscint Ltd. of Israel, a manufacturer of medical diagnostic imaging equipment, such as CT scanners and gamma cameras.

I am submitting this written statement because Elscint, Inc. imports from Israel CT scanners and gamma cameras as well as other highly advanced medical diagnostic imaging equipment. These articles currently enter the United States duty-free under the GSP program. For reasons more fully explained below, this duty-free treatment has assisted Elscint in becoming more competitive in the United States which, as a result, has benefitted many Americans. The purpose of my statement is to urge you to continue this duty-free treatment on a more permanent basis through the establishment of a Free-Trade Area with Israel.

Elscint Ltd. is a corporation whose shares are publicly traded over-the-counter in the United States. At the end of February 1983, approximately 8.5 million shares of Elscint ordinary F Series shares outstanding were held by American shareholders. Shares of Elscint Ltd. are valued at approximately $18.00 per share on the over-the-counter exchange.

Elscint, Inc., a wholly-owned subsidiary of Elscint, Ltd., is a U.S. corporation with headquarters in Boston, Massachusetts Elscint, Inc. and its subsidiary, Elscint Imaging, Inc. employ about 1,000 American citizens in the United States, with an annual remuneration (in 1983) of approximately $16 million. Elscint, Inc. is a U.S. manufacturer of ultrasound equipment which is produced in Boston. We also engage in research and development in the United States. In addition, Elscint, Inc. dispersed approximately $6.5 million in 1982 to U.S. businesses for rent, utility services, communications services and travel services. Finally, Elscint, Inc., as agent for Elscint Ltd. in Israel, is a very large purchaser from American suppliers. At least 50% of the component parts in Elscint's gamma cameras and CT scanners are U.S. made. In 1982 alone, Elscint, Inc. purchased approximately $14 million in goods and supplies from U.S. businesses. Thus, to the extent that duty-free treatment assists Elscint in becoming more competitive in the United States, many U.S. citizens and businesses profit.

In December of 1983, Elscint, Inc. acquired certain assets of the Xonics, Inc. relating to its x-ray product line. By this acquisition, and the formation of a wholly-owned subsidiary called Elscint Imaging, Inc., Elscint, Inc. more than 400 persons to its payroll. It is expected that this growth will benefit many U.S. citizens and businesses through the x-ray product line, much of which will be manufactured in the U.S.

Now, without being too technical, I would like briefly to discuss some of the products Elscint manufactures. Computerized tomography (CT) scanners are complex x-ray devices operating in conjunction with a computer to provide images of the human body. In general, the scanners direct x-rays through the body which are then sensed by an array of radiation detectors. The radiation detectors receive the radiation which is passed through the patient and converted into electrical impulses. The electrical signals are digitized and fed into a computer system. The computer then takes the data and reconstructs a clinical image. The resulting image seen by the physician is a cross-section, or slice, of a particular portion of the body. CT technology is very beneficial to the physician and to the patient in that it often obviates the need for exploratory surgery in order to make or confirm a diagnosis. CT technology also is used in place of other invasive diagnostic techniques which could be more dangerous or painful for a patient. In addition, this technology can shorten hospital stays because scans can be done on an out-patient basis.

Gamma cameras, which have been used since the late 1960's, use gamma rays to produce a visual image on a cathold ray tube of internal tissue, usually an organ. The patient undergoing a gamma camera study is injected with a radioactive material which collects in the tissue being studied. The camera is then placed near the tissue area and receives the gamma rays emitted by the radioactive material.

The gamma camera contains (1) devices which control the viewing angle of the camera, (2) a scintillator crystal to convert the gamma rays discharged from the tissue into a light pulse, (3) an array of photo multipliers behind the scintillator crystal to change the light pulse to electrical form, and (4) an electronic system. The light pulses are converted to electrical form, and are then translated to spots on the picture tube. The entirety of such accumulated spots presents an image of the tissue area under investigation, from which a diagnosis can be made.

Elscint is a dynamic company which has devoted much time, effort, money and brain power to research and development. Both our CT scanners and gamma cameras contain design features that other manufacturers of similar products do not provide. Elscint's gamma camera has been acclaimed by experts as being several years ahead of the field. Our gamma camera has a very high count rate capability. This means that the computer can acquire much data in a short period of time and thus form the image of the organ very quickly—much more quickly than most other gamma cameras do. A clear, acurate image is produced in less time. This has a distinct benefit: in performing a quicker scan, it is possible more accurately to monitor fast moving organs, especially the heart. For this reason, our system is preferred for use in certain heart studies that require monitoring the passage of radioactive material through the heart.

As for Elscint's CT scanner, Elscint markets what we call a Satellex scanner system. The Satellex system consists of a "host" installation, containing the CT scanner gantry and the central computer, and a "remote" station, which has a CT scanner gantry that transmits data by telephone lines to the host station for processing. In other words, the host computer power is distributed between several gantries. The Satellex system is usually purchased jointly by several small medical institutions with limited resources and small patient bases. The total cost of a Satellex system to institutions is slightly less than the price of one of the single, top-of-the-line scanners offered by other CT scanner manufacturers.

The Satellex system has been very well received in the United States, in particular by customers in smaller rural areas. Without the Satellex system, it would be unlikely that these institutions could afford a CT scanner, and patients would be deprived of this valuable diagnostic tool.

Other Elscint products include ultrasound, mammography, conventional x-ray, and digital florography and digital subtraction angiography. Elscint is also in the process of pursuing Pre-Market Approval for its nuclear magnetic resonance scanner. In short, Elscint is a total diagnostic imaging company—one which not only offers all imaging modalities, but one whose single focus is the advancement of this important sector of the health care market.

Elscint technology assists in bringing diagnostic treatment to more patients at less cost. Obviously, one very important factor reducing costs has been the savings in import duties. Even though the duty on the imported products, which ranges from 2.3% to 4.4%, is in the low to medium range, the products imported by Elscint are very high-valued items—one CT scanner alone can cost up to $1,000,000. In the aggregate, the duty-free entry saves considerable sums, which savings are then passed on to health care consumers.

Under the existing GSP mechanism, it is difficult for Elscint to know whether or not it will exceed the competitive-need limits in any given year. This is because we, unlike most GSP eligible countries, manufacture high technology items. A relatively modest volume of those items is sufficient to disqualify us from GSP benefits. If a free-trade area were established with Israel, the present uncertainty would be removed.

As you are well aware, the cost of health care has become almost an unbearable financial burden for many. Elscint is very committed to finding ways to bring its valuable and sophisticated diagnostic equipment to the public at reasonable costs. To date, the GSP program has been of great assistance in furthering our efforts. A free-trade area would be even more valuable.

Mr. Downey. Thank you. There are no questions.

The committee will now hear from Mr. Albert Soffa, the chairman of the board of Kulicke & Soffa Industries, Inc. He is not here.

United Midwest International Corp., Harris R. Till, senior vice president and economist.

STATEMENT OF HARRIS R. TILL, SENIOR VICE PRESIDENT AND ECONOMIST, UNITED MIDWEST INTERNATIONAL CORP.

Mr. Till. Mr. Chairman, members of the committee, I should like to express on behalf of United Midwest International Corp. our appreciation for this opportunity to present our views in support of legislation aimed at establishing freer trade relations between the United States and Israel.

As background to the development of our corporate views, I should like to point out that our firm is an international trading company headquartered in Cincinnati, OH. We consider ourselves unique among trading companies. We were the first U.S. joint venture export trading company established pursuant to recent legislation which allows bank holding companies to invest in export trading companies.

United Midwest International Corp. offers comprehensive international services via a complex of affiliated companies. Our strategic business planning, export/import services, market/marketing research, linguistic and shipping acumen are coupled with additional internal technical expertise in areas of emerging high technology, engineering and commercial process operations to provide a comprehensive spectrum of international business services.

We focus heavily on exports of U.S. high technology and recognized significant mutual benefits that should be forthcoming pursuant to strengthened trade linkages between the United States and Israel; particularly in the case of commercial implementation of high technology.

We provide a critically important conduit for achieving increased production, increased employment and ultimately strengthened economies.

Further, and in today's world, the speed of transportation coupled with the ease of communication, create for accessible world markets and international business opportunities. However, these factors often create a diversity of business transactions that are new and perplexing to many. In these instances, our activities are geared toward minimizing the mystique of international business.

In the case of United States-Israel trade relations, we feel that our corporate activities could assist in stimulating economic benefits of increased production, higher income, and greater purchasing power for both countries.

United Midwest International Corp. strongly favors and supports legislation aimed at freer trade in general since it affords a unique culture medium, if you will, for breeding long-term mutual economic benefits and political harmony among participating nations. We believe that tariff reductions will, in the long run, favor an improved position with respect to balance of payments and should stimulate new businesses and new product development.

The envisaged Free Trade Agreement [FTA] between the United States and Israel could logically generate international benefits paralleling those domestic benefits that have come forth from our own industrial revolution of many years past.

In addition, such a trade agreement could logically serve as a model for future agreements with other countries by demonstrating that trade barries may serve selected and immediate short-term needs, but over the long run, these deterrents become destructive to economic growth and improved living standards. In this context, one easily recognizes potential opportunities for government financing of inefficient industries and the devastating effects that can ensue.

Further, our own domestic firms will become more cognizant of the fact that their new marketplace is now the world. Thus they will commence to realize that implementation of current technology to improve their manufacturing methods and their product's utility will be essential for profitability and to their economic survival. Business apathy and satisfaction with the status quo could lead to corporate disaster.

A case in point being a company in our own State of Ohio. During nearly 100 years of its existence, it had become a stellar multinational corporation. Its mechanical product, worldwide sales-service networks were second to none. They controlled an enviable portion of the world market for their product.

Unfortunately, and during the company's rise in corporate stature, one of its senior members could receive no "ear" to his suggestion to upgrade their mechanical product to an electronic device. This individual becoming so frustrated in his own efforts to develop and implement state-of-the-art technology, resigned to start up his own firm. This firm is now called IBM, International Business Machines.

Escalating apathy, corporate arrogance and satisfaction again with the status quo nearly led to the demise of this company some 10 years ago. Over the 3-year period from 1969-72:

First, employment of this firm dropped from about 20,000 to 5,000; and

Second, their annual profits of $50 million glided to a $60 million loss.

The economic impact on the city in Ohio and its surrounding suburbs was catastrophic.

Mr. Downey. Mr. Till, can I ask you to summarize the rest of your statement, because I want to make sure we get your statement in before we have to vote.

Mr. Till. Yes.

One comment in conclusion. We can certainly appreciate how fierce disagreements prevail between protectionist factions and free traders. However, we feel that this situation may not be as bad as might appear. It is logical to assume that both camps have the same ultimate objectives of economic growth and well being. The controversy lies in developing accord as to the mechanism through which these objectives can be achieved. An atmosphere of empathy must certainly be rendered.

However, financing malfeasance in management, technology and/or manufacturing methods is economically improper, is poor business judgment and works to the detriment of U.S. taxpayers. On the other hand, neither should one's advanced technology be hampered from effecting commercial benefits.

In conclusion, United Midwest International Corp. urges support of freer trade relations between the United States and Israel and we look forward to having an opportunity to contribute to the establishment and successful implementation of such trade agreement since it will generate mutual economic and political benefits for the United States and Israel.

Mr. Downey. Thank you, Mr. Till.

[The prepared statement follows:]

Statement of Harris R. Till, Senior Vice President and Economist, United Midwest International Corp.

SUMMARY

On behalf of United Midwest International Corporation (UMIC), I should like to present testimony in support of legislation aimed at etablishing a freer U.S.-Israel Trade Agreement.

UMIC is a unique international trading company headquartered in Cincinnati, Ohio. We are the first U.S. joint venture export trading company established pursuant to the Export Trading Company Act of 1982, and link the United Midwest Bancshares, Inc. of Cincinnati, Ohio with private capital sources that enjoy broad experience in international trade. United Midwest Bancshares, Inc. is the bank holding company parent of The Southern Ohio Bank. UMIC's comprehensive international business services of strategic business planning, export/import, market/marketing research, linguistics and shipping accumen are integrated with additional internal technical expertise in areas of emerging high technology, engineering and commercial manufacturing processes, focus heavily on exports of U.S. high technology. Representing a broad, objective, commercial outlook, we recognize that significant long-term mutual economic and political benefits should be pursuant to strengthened trade linkages between the United States and Israel; particularly in the case of commercial implementation of high technology.

UMIC strongly favors and supports legislation aimed at freer trade. We believe that tariff reductions will, in the long run, favor an improved position with respect to balance of payments, and should stimulate new businesses, new product developments and improvements in manufacturing methods. The envisaged agreement between the U.S. and Israel could logically generate international benefits paralleling those domestic benefits that evolved from the historic U.S. industrial revolution. In addition, this instrument of freer trade relations might logically serve as a model for future agreements with other countries.

Freer trade will minimuze the need for protectionism and therein insure against government financing malfeasance in management, technology and/or manufacturing methods. The direct relationship between trade and growth becomes increasingly more apparent.

Intellectual economic honesty germane to the long term is certain to favor freer trade as the precursor of economic growth. The ensuing benefits are certain to eclipse those problems that prevail and appear to be insurmountable.

In conclusion, UMIC urges support of a U.S.-Israel Trade Area as a means for generating mutual benefits for the respective countries.

STATEMENT

I should like to express on behalf of United Midwest International Corporation (UMIC) our appreciation for this opportunity to present our views in support of legislation aimed at establishing freer trade relations between the United States and Israel.

As background to the development of our corporate views, I should like to point out that our firm is an international trading company headquartered in Cincinnati, Ohio. We consider ourselves unique among trading companies. We were the first U.S. joint venture export company established pursuant to recent legislation which allows bank holding companies to invest in export trading companies. United Midwest International Corporation offers comprehensive international services via a complex of affiliated companies. Our stragetic business planning, export/import services, market/marketing research, linguistic and shipping accumen are coupled with additional internal technical expertise in areas of emerging high technology, engineering and commercial process operations to provide a comprehensive spectrum of international business services. We focus heavily on exports of U.S. high technology and recognized significant mutual benefits that should be forthcoming pursuant to strengthened trade linkages between the United States and Israel; particularly in the case of commercial implementation of high technology.

As part of a service industry, UMIC compliments basic growth and industries synergistically, by integrating export services, business consultation and technical consultation in a way that assists our clients in fashioning products, for example, into the most favorable marketable form for particular geographical sectors. Thus, we provide a critically important conduit for achieving increased production, increased employment and ultimately a strengthened economy. Further, and in today's world, the speed of transportation coupled with the ease of communication, create more accessible world markets and international business opportunities. However, these factors often create a diversity of business transactions that are new and perplexing to many. In this instance, our activities are geared toward minimizing the "mystique" of international business. In the case of U.S.-Israel trade relations, we feel that our corporate activities could assist in stimulating economic benefits of increased production, higher income, and greater purchasing power for both countries.

United Midwest International Corporation strongly favors and supports legislation aimed at freer trade in general since it affords a unique culture medium . . . if you will . . . for breeding long-term mutual economic benefits and political harmony among participating nations. We believe that tariff reductions will, in the long run, favor an improved position with respect to balance of payments and should stimulate new businesses and new product development. The envisaged Free Trade Agreement (FTA) between the United States and Israel could logically generate international benefits paralleling those domestic benefits that have forthcome from our own industrial revolution of many years past. Further, such a trade agreement could logically serve as a model for future agreements with other countries by demonstrating that trade barriers may serve selected and immediate short-term needs, but over the long run, these deterrents become destructive to economic growth and improved living standards. In this context, one easily recognizes potential opportunities for government financing of inefficient industries and the devastating effects that can ensue.

Also, our own domestic firms will become more cognizant of the fact that their marketplace is now the world. Thus, they will commence to realize that implementation of current technology to improve their manufacturing methods and their product's utility will be essential for profitability and to their economic survival. Business apathy and satisfaction with the status quo could lead to corporate disaster.

A case in point being a company in our own State of Ohio. During nearly 100 years of its existence, it had become a stellar multinational corporation. Its mechanical product, worldwide sales-service-parts network was second-to-none. they controlled an enviable portion of the world market for their product. Unfortunately, and during the company's rise in corporate stature, one of its senior members could receive no "ear" to his suggestion to upgrade their mechanical product to an electronic device. Becoming so frustrated in his efforts to develop and implement state-of-the-art technology, this senior officer resigned to start his own firm. This firm is now called IBM.

Escalating apathy, corporate arrogance and satisfaction with the status quo nearly led to the demise of this company some 10 years ago. Over the three-year period from 1969-1972—

(1) employment dropped from about 20,000 to 5,000; and
(2) profits of $50 million glided to a $60 million loss.

The economic impact on the city and its surrounding suburbs was catastrophic.

The ending in this case of adversity is, however, very happy and encouraging. A new president was chosen from one of the company's overseas operations. This gentleman faced-up to the reality of the situation. He changed the corporate strategy, guided the development and manufacture of a computer-aided device to replace the mechanical product.

The product: a cash register. The city is Dayton, Ohio. The company: NCR. And the visionary gentleman, now chairman and experiencing this phenomenal success on the eve of his retirement: William Anderson.

It was the vision of William Anderson, along with his quest for technical excellence that allowed NCR to regain its position of international prominence; and excellent lesson and example for other companies to follow.

Enhanced trade will be paramount to the survival of free societies, worldwide. Propensities toward freer trade will minimize the need for protectionism. Thus, we at United Midwest International Corporation firmly believe that trade is distinctly linked to economic growth. We are of the opinion that protectionistic pressure is likely to translate directly into legislative measures that could hinder the development of new markets and restrict one of the most important elements of equitable business transactions; that element being the process of negotiation.

Obviously, the academistic posture of perfect free trade is quickly eroded by realities of the real world, because of inconsistencies in labor rates, monetary rates of exchange and, in many cases, government subsidies by the exporting country. However, intellectual economic honesty will favor . . . over the long-term . . . freer trade as the precursor of economic growth. The ensuing benefits are certain to eclipse those problems that prevail and appear to be insurmountable. Products will be manufactured more efficiently and made more readily available in the marketplace. Finally, enhanced purchasing power will stimulate the cycle, as illustrated by several typical examples of fundamental economic concepts that follow:

Consider for example, computer-based instrumentation for maximizing the efficiency of water pumping operations.

A small but growing Cincinnati firm has developed advanced microcomputer-based instrumentation which, when integrated into a conventional pump-drive system, affords a means for conserving energy, minimizing operating costs and maximizing pumping efficienty. The firm markets complete, turn-key pumping unit operations that are ready for use upon installation at particular commercial sites. This type of system is gaining domestic prominence in commercial pumping system applications ranging from plumbing, to heating and air conditioning, to industrial processes using cooling water, to municipal water and sewage systems, to complex fire fighting systems. Further versatility of this firm's technology stems from the fact that the control unit is not dependent on any particular manufacturer's pump. Thus it is an excellent candidate for export to foreign pump manufacturers. The end result can easily be envisaged. A given Israeli pump manufacturer could, therewith, enhance the value of its pump, increase demand for its product and also develop a favorable basis for increased export of a computerized-controlled pump and/or pumping system based on their own pumps. Specialized pumping might logically be designed and built for export to other countries; including the United States. The effects of the proposed Free Trade Area could stimulate the economic trading cycle and provide further opportunities for the Cincinnati firm to expand its development and manufacture of improved water pumping systems.

Considering a different business, in this case a unique food delivery system for use in raising fish and crustacea in captivity. The science is called mariculture; a cost effective method for providing high protein seafood at a fraction of the cost of producing, for example, beef.

Conventional methods of directly adding free or loose nutrients into the water are inefficient. Free-food contributes to unwanted algae growth which reduces the supply of oxygen and also contributes to mechanical problems in growing tanks. The emerging technology of microencapsulation affords a means for "packaging" a completely balanced diet inside small balls referred to as capsules. The product may be envisaged as a ping pong ball that contains food. However, in the case being discussed, the "ping pong balls" are small enough to pass through a hypodermic syringe. Further, the food is not leached from the capsules into the growing tanks, but on ingestion by the baby fish and crustacea, it is quickly assimilated by the little creatures because of their internal biological makeup which is sufficient to degrade the capsule wall and thus release the food.

A Free Trade Area, as currently being considered, would effect mutual economic benefits in this instance. Elimination of tariffs and tariff barriers would afford more favorable conditions for Israeli firms to import microencapsulated foods. Also, these firms would realize increased production rates together with opportunities for enhanced sales and profitability of the harvested crop of seafood. In addition, they would gain a more favorable competitive position in the seafood market. Stimulated U.S. production and sale of the food capsules, with ensuring corporate growth, would be the quid pro quo of this particular example.

One final example, a state-of-the-art "tool" that allows mechanical design engineers to improve their output and general effectiveness.

Advanced computer software is being developed that enables design engineers to effectively design and test mechanical devices within a computer. This is in contrast to conventional methods involving production of engineering drawings, creating and testing of a prototype and repeating design modifications, prototype testing, etc., until a satisfactory end product is achieved. The aforementioned software, when combined with the proper computer hardware, affords an invaluable turn-key "tool" for design engineers. Using this computer-aided "tool" the engineer can: 1) first create the desired geometric shape of the device, 2) design and test individual component parts of the device, and finally 3) test the completely assembled end product in a computer. Construction of the prototype need only be done for verification purposes.

The proposed Free Trade Area with Israel could in this case logically stimulate U.S. sales of this high technology, turn-key product to Israeli firms. These increased U.S. sales would afford additional revenues for R&D and ensuing opportunities for technological improvements. Israeli engineers, on the other hand, would be provided a "tool" which, when used in conjunction with their engineering intellects, will hasten the design and introduction of new products at substantially lower-than-normal costs. Possible opportunities for export of mechanical devices even to the United States are obvious.

Although the products and industries described in the aforementioned examples are distinctly different, one recognizes the existence of a common and very important intrinsic thread of mutual economic benefits woven through each case. Increased trade between the United States and Israel will become a reality, and the beneficial existence of competitive pressures will cause services to be rendered more efficaciously.

Perhaps not as apparent, but extremely important and fundamental to the ultimate success of this matter, is that the intended Free Trade Area could logically create opportunities for evolving interaction between both governments and their respective private sector groups. Such interactiveness is certain to generate healthy competition and long-term benefits associated with broader access to Israeli markets. The United States would also be in a more favorable position to compete within the sphere of the Israeli-European Community Free Trade Agreement. Further, the proposed trade agreement could be the vehicle through which long-term political benefits are forged.

We can certainly appreciate how fierce disagreements prevail between protectionist factions and free traders. However, we feel that this situation may not be as bad as might appear. It is logical to assume that both camps have the same ultimate objectives of economic growth and well-being. The controversy lies in developing accord as to the mechanism through which these objectives can be achieved. An atmosphere of empathy must certainly be rendered. However, financing malfeasance in management, technology and/or manufacturing methods is economically improper, is poor business judgement and works to the detriment of U.S. taxpayers. On the other hand, neither should one's advanced technology be hampered from effecting commercial benefits.

In conclusion United Midwest International Corporation urges support of freer trade relations between the United States and Israel and we look forward to having an opportunity to contribute to the establishment and successful implementation of such trade agreement since it will generate mutual economic and political benefits for the United States and Israel.

Thank you for your kind attention.

Mr. DOWNEY. The committee will now hear from Mr. E. Jay Finkel, counsel to the Zionist Organization of America. Mr. Finkel, you are last but certainly not least. If I could ask you to summarize your statement, you would be doing the committee a great favor.

STATEMENT OF E. JAY FINKEL, SPECIAL COUNSEL, ZIONIST ORGANIZATION OF AMERICA

Mr. FINKEL. Thank you very much. I am E. Jay Finkel of the law firm of Porter, Wright, Morris & Arthur, representing today the Zionist Organization of America, ZOA. ZOA supports the United States-Israel free trade area, which will have positive economic advantages for the United States. In ZOA's view, a FTA will, first, avoid U.S. exporters being at a disadvantage in competing in the Israeli market against EEC exporters who already have an FTA with Israel.

Second, it will help U.S. consumers obtain economic, high-quality household use items from Israel.

Third, it will give the United States better access to Israel high-tech research and high-tech products, complementing our own.

And finally, it will facilitate United States-Israeli joint ventures in world trade and may help U.S. firms penetrate EEC markets.

ZOA recommends, therefore, that the Congress adopt legislation giving the administration full flexibility to negotiate and proclaim an FTA agreement with Israel.

ZOA has the following suggestions on technical aspects of such an agreement:

First, product coverage should be 100 percent. Any exception will lead to many exceptions.

Second, the phase-in timetable should be rapid, but should recognize Israel's need for a longer time to adjust than the United States requires.

Third, the origin rules should be no more stringent than in the recent Caribbean Basin Initiative.

ZOA believes the free trade area will be trade expanding and GATT consistent. A free trade area will help Israel to earn its way through commercial sales and so ultimately have less need for official U.S. aid.

There has been some testimony that suggests that widespread customs fraud would ensue with no ability by the U.S. Customs Service to monitor the movements of goods. But this legislation is neutral in that regard. It changes nothing with respect to the supervisory powers of Customs, and it creates no new problems not already faced with other goods from other countries.

There has also been testimony that suggests that this legislation is bilateralism, and therefore inconsistent with our general policy of multilateral trade. However, this argument comes from sectors where bilaterally negotiated trade restraints are a way of life—perhaps for good reason, but hardly a basis for opposing an arrangement that is explicitly authorized under the GATT agreement.

Finally, one line of opposition suggests that there be a product exemption for a product of which Israel is not even a significant producer. Trade restraint on potential as opposed to actual competition is a new and far greater threat to a multilateral trading system than any alleged bilateral character of a free trade area.

In conclusion, then, the United States and Israel are both strong democracies with market economies and a spirit of private enterprise. ZOA believes that an FTA will provide economic strength in support of our joint aims for regional peace in the Middle East.

Thank you, Mr. Chairman.

Mr. DOWNEY. Thank you, Mr. Finkel.

[The prepared statement follows:]

STATEMENT OF E. JAY FINKEL, COUNSEL, ON BEHALF OF THE ZIONIST ORGANIZATION OF AMERICA

I am pleased to appear before this Committee today on behalf of the Zionist Organization of America (ZOA) in support of the proposed free trade area arrangement between the United States and Israel. ZOA believes such an arrangement to be a logical and desirable extension of one of the United States' most important international relationships.

While there is undoubtedly political significance to any move that creates closer ties between the United States and Israeli economies, ZOA believes a free trade area arrangement with Israel can be entirely justified in terms of the resulting economic advantages to the United States, without reference to political considerations. The concept is fully consistent with the principles of free and open trade. It is also consistent with existing international obligations of the United States. ZOA commends the Administration, and Ambassador Brock in particular, for responding constructively to Israel's suggestion that a free trade area be considered, and urges the Congress to take the legislative steps necessary to permit the arrangement to be implemented at the earliest possible time.

U.S.-Israel trade is significant by any standard. In 1982, Israel provided a market for $1.5 billion of U.S. goods—a figure representing a larger proportion of U.S. total merchandise exports than is exported to Sweden, India or Columbia. The potential for U.S. exports is much greater, since the total Israel non-military import market is in the neighborhood of $8 billion. In the same year 1982, the United States imported $1.2 billion of Israeli products. Imports into the United States from Israel, important though they are to Israel in terms of its export earnings, represent only a fraction of one percent of total U.S. imports. U.S. exports to Israel, however, represent fifteen percent of total Israeli imports, making the United States one of Israel's largest single suppliers.

The composition of U.S.-Israel trade is noteworthy, too: over a quarter of U.S. exports to Israel are agricultural, providing a market for over $400 million of products of American farms. Only a small percentage, less than 5 percent, of U.S. imports from Israel are agricultural; of the balance, nearly half consists of essentially noncompeting diamonds, leaving a current level of manufactured goods imports of about one-half billion dollars.

Among the reasons ZOA believes a free trade area with Israel would be beneficial to the United States are the following:

1. *To avoid being disadvantaged vis-a-vis Common Market suppliers.* Roughly 40-45 percent of U.S. exports to Israel are now subject to Israeli import duties. These duties average slightly over ten percent. Since 1975, however, Israel has been phasing in a free trade area arrangement with the European Economic Community (EEC), or Common Market. That phase-in is approaching completion with respect to manufactures, so that in the near future, EEC exporters will face no tariff barriers in Israel. Unless the United States enters into a comparable free trade area arrangement, U.S. exporters of goods to Israel who are otherwise as efficient as their EEC counterparts will nevertheless suffer because they will be facing an Israeli tariff.
2. *To obtain benefits for the U.S. consumer.* Imports of consumer goods help keep inflation in check and ease the burden on hard-pressed family budgets. Reasonably-priced, high quality Israeli goods have established an excellent reputation in the U.S. market. A free trade area will allow U.S. consumers to take advantage of these manufactured, processed agricultural and agricultural products for household use. Since some of these goods now enter under Generalized System of Preferences (GSP) arrangements whose future is uncertain, the free trade area would ensure their continued availability in the U.S. marketplace.
3. *To facilitate U.S. access to Israeli high-tech capabilities.* The United States and Israel both enjoy preeminent positions in the development and exploitation of various advanced technologies. Israel's successful hightech strategy of development has yielded results that are frequently complementary to U.S. areas of emphasis. A free trade area arrangment will thus allow U.S. high-tech firms to acquire, at less expense, componentry for incorporation into new products or sophisticated equipment needed for research or for production of high-tech products.
4. *To open new opportunities for U.S.-Israeli joint ventures aimed at world markets.* Increased two-way trade within a U.S.-Israel free trade area will inevitably open further possibilities for U.S. companies to join with Israeli companies in profitable joint ventures. Together they could address new opportunities in third markets. Because Israel would occupy a unique position as the common member of both free trade areas—the U.S. and the EEC—U.S. access to European markets could be enhanced. By pooling product development, production and marketing skills with experienced Israeli partners, American firms otherwise hesitant to enter the export arena would find it far easier to do so.

The foregoing reasons for U.S. support for a free trade area with Israel have been stated in rather general terms. There are, however, certain specific technical issues on which ZOA would like to indicate its views.

First, as to product coverage, there is the need to qualify under the criteria of GATT Article XXIV, which permits free trade area arrangements if they cover "substantially all" the trade between or among the participating countries. ZOA recommends that all tariff classifications, without exception, be within the scope of the arrangement, since the utility of the arrangement depends on its comprehensiveness. If one U.S. producer group succeeds in establishing its product on an "exceptions" list, the pressures for other substantial derogations will be intense. So-called safeguard provisions are available in the event of problems with specific commodities, and are preferable to outright exceptions. ZOA welcomes the fact that the Senate Finance Committee has ordered favorably reported a bill that is without product exceptions.

Second, the timetable for phasing in the reduction to zero of mutual tariffs should be as rapid as possible. But it must also consider the fact that the ability of a large diversified economy like ours to digest a series of tariff reductions is much greater than that of the smaller Israeli economy. A slower phase-in rate of tariff reductions for Israel than for the United States will be essential to ensure that the implementation of the arrangement is successful. Such features were incorporated into the Israel-EEC agreement of May 11, 1975.

Third, rules of origin for defining goods eligible for free trade area treatment should reflect the fact that Israel's small economy is dependent on numerous imported materials and components for its industrial output. Transformation and value-added rules should therefore be liberal. In this regard, the recent U.S. experience in fixing a 35 percent local content rule for purposes of the so-called Caribbean Basin Initiative may be a useful precedent.

The free trade area proposal is sound public policy both with respect to U.S. trade policy and in the broader, long-term context of the U.S.-Israel relationship. As trade policy, ZOA believes it likely to be trade-expanding, rather than trade-restrictive, and therefore entirely within the spirit of GATT. As conceived by both sides, it would be in a form explicitly authorized by GATT Article XXIV and thus would be an aspect of multilateralism rather than a retrograde step towards bilaterlalism. The United States has long since accepted Article XXIV-sanctioned arrangements among other countries.

In relation to the long-term U.S. Israel relationship, the direct economic benefits that would accrue to the United States have already been outlined. In addition, it is eminently sensible for the United States, which provides substantial economic assistance to Israel, to help that country to reduce its economic aid requirements by allowing it to earn more dollars in the U.S. marketplace. That this can be done through private enterprise transactions between the two market economies is an extra benefit that deserves recognition.

I would like now to respond briefly to some points that have been raised as objections to the Israel free trade area proposal, and which do not in my view withstand even cursory analysis.

First, it has been suggested, in the context of the problem of enforcement of various current restraints on imports of textiles and apparel, that the proposal would permit imports into the U.S. Customs territory "without any of the controls which are provided by the U.S. Customs Service," thus allowing circumvention of duties or quotas. Zero duty, however, does not mean zero surveillance. Goods entering duty-free under the proposal will still have to go through U.S. Customs inspection, entry and documentation procedures. Such goods pose no different or greater customs enforcement problems than any other goods subject to duties or quotas. In fact, they may pose less of a problem because of the effectiveness of Israeli officials in monitoring what moves through Israel's customs territory.

Second, it seems less than candid for critics to characterize the proposal as representing a new and undesirable trend of bilateralism in our trade policy, and at the same time praise the complex network of bilaterally negotiated, product-selective "voluntary" restraint agreements, orderly marketing agreements and similar trade-restricting arrangements that continues to be relied on in the apparel, agricultural and other areas. These latter arrangements have their own logic and rationale in addressing particular trade problems, and this is not the moment to debate their pros and cons. But a proposal that is explicitly authorized by GATT as consistent with the multilateral trading that system, and that will unquestionably be trade-expanding, cannot with any fairness be regarded as the leading edge of a bilateralist trade policy. It is particularly surprising that the textile and apparel industries should take such an attitude toward this proposal, since the United States enjoyed a $16 million surplus in textile and apparel trade with Israel in 1982, and these industries are among the ones that would benefit from significant Israeli duty reductions. Elimination of the 15-16 percent Israeli duty on U.S. textile fibers should result in an enlarged market as Israel firms are enabled to compete better in third markets for finished apparel.

Third, the position taken by the rubber footwear industry appears to endorse not only protection against present unfair competition from low-wage economies—with which it is possible to agree—but also against potential competition from any source, whether or not fair or in reasonable amounts. The industry concedes (a) that high tariffs have not prevented import competition from low-wage countries, (b) that Israel is not such a country, and (c) that Israel is not even a significant producer of rubber footwear (total Israeli footwear exports in 1982 were less than $5 million worldwide). Nevertheless, the industry seeks an exclusion for its product. If the rationale of this industry for an exclusion is accepted, no industry seeking an exclusion would have to show any more than that Israel has the physical potential to produce the product under some conditions sometime in the future. In the light of the opportunities the proposal would facilitate for U.S. exports to Israel of footwear, footwear materials, and footwear-making machinery, the Congress deserves a more sophisticated basis for restricting the scope of a beneficial trade arrangement than that offered by the rubber footwear industry.

Mr. Chairman, the United States and Israel share common values of international conduct and a common goal of achieving a general Middle East peace. U.S. interests are served by actions that help Israel to remain strong militarily and enable it to continue to practice its vigorous form of democracy in a region where autocratic rule is unfortunately endemic. As in the case of the United States, a strong Israeli economy is a foundation-stone of over-all Israeli national strength. The proposed free trade area arrangement holds promise of giving new developmental impetus to the Israeli economy, while at the same time conveying substantial benefits to the United States. The arrangement deserves the support of the Congress.

Mr. DOWNEY. Mr. Jenkins, do you have any questions?

Mr. **Jenkins**. No.

Mr. **Downey**. Thank you for your statement. Your recommendations are sound ones, but ones that may be difficult to implement.

This concludes the hearing for today. The subcommittee will resume at 9:30 tomorrow morning in this same room.

[Whereupon, at 1:15 p.m., the subcommittee adjourned, to reconvene at 9:30 a.m., Thursday, June 14, 1984.]

PROPOSED UNITED STATES-ISRAEL FREE TRADE AREA

THURSDAY, JUNE 14, 1984

House of Representatives,
Committee on Ways and Means,
Subcommittee on Trade,
Washington, DC.

The subcommittee met at 9:30 a.m., pursuant to notice, in room B-318, Rayburn House Office Building, Hon. Thomas J. Downey presiding.

Mr. Downey. I apologize to Beryl and David for being late.

The subcommittee will come to order. We are privileged to have both our colleagues, the Senator from Arkansas, Mr. Pryor, and Mr. Anthony with us.

STATEMENT OF HON. BERYL ANTHONY, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARKANSAS

Mr. Anthony. Thank you very much, Mr. Chairman. I have a prepared statement, and with your permission, I ask that it be submitted for the record.

Mr. Downey. Without objection.

Mr. Anthony. At the outset, let me state for the record my parochial interest in this, so that the committee will be clear that I am coming from basically two different directions.

One, the bromine industry in the State of Arkansas is located in Union and Columbia Counties. Union County happens to be the county of my birth and of my home, so I have grown up knowing about this industry. In fact, through my history as a lawyer, I have represented various parties within and without the industry, so it is one of those opportunities where you get a very good knowledge of the industry because you know the people who are in management. You get to know the people who are working in the industry directly at the plants, and you also get to know the people who are indirectly related, in that they produce or provide the source which is the salt water that contains the bromine that is extracted to make these products.

It is ironic that, through my career, I now end up on a committee, not the Trade Subcommittee, but the committee that has some jurisdiction over this.

Although I do have a parochial political interest in this, my testimony will be forthright as far as the facts are concerned, and from the point of logic of trying to help this industry.

The United States and Israel provide about 82 percent of the bromine that is produced in the world, and the two counties I represent produce 85 percent of the bromine that is produced in the United States.

There probably won't be a great outpouring of interest as far as the direct producers are concerned, from a lot of other Members of Congress or other Senators; however, the products that are made go into components that are widely distributed.

Right now, they are using these components to go into flame retardants. I helped dedicate a new plant in my hometown where they are starting a new process, very sophisticated, high technology oriented, to put the compounds into fire extinguishers. If you look very closely, you would see that this is a technology that is fast taking over that particular area of the business.

What concerns me and the members of the industry is the simple fact that many of their markets have been taken away—not because of competition, but because of Government regulations.

Many of the bromine compounds were going into agricultural-related products, products that would help the farmer control and improve his productivity. Unfortunately, because of our newly developed, highly technological skills of determining cancer-causing agents, they have run into a situation where some of these products have been removed from the market. And as a result, it has gone all the way back down to the producer. So they are reeling from other Government actions as a result of health and environment concerns.

As they are trying to rethink within the industry the research and development they can do to gain new markets and to keep the industry alive, they then wake up and find that their nearest competitor, internationally, is coming in asking the Congress for a free trade policy.

Testimony later today from industry officials, especially Ken Karmel, will show that the domestic industry is going to be up against an uneven spirit of international competition if Israel is given free trade protection for their bromine.

My testimony shows that we feel that Israel is already getting protection. They get a better source of raw material. They get better tax breaks—and there are a whole series of them—but I think what I would like to do is just let the industry make that record much stronger.

Mr. Chairman, I am here representing the Fourth Congressional District, of which this industry is a very strong component. I am here because of the jobs and the economic impact free trade would have on my area, an area that is still above the national average of unemployment.

The bromine industry is isolated and small in the total scheme of things, but when you look at its direct employment and its effect in the State—in the south of Arkansas—I can tell you that if the industry is faced with another Government action through legislation that would give their competitor a better chance to put their foot on them and stomp them a little bit deeper, you probably will see the demise of this industry, which means we would then have to have a transitory work force in some other area. And unfortunately, those other jobs are just not on the horizon in those two counties.

So I ask you to take a very close look, not only at the content of the testimony forthcoming, but also at the spirit in which it is given. This is an industry that is not afraid of competition. They would just like to be given a fair and equal opportunity to show that they can be competitive in the free market.

I thank you.

[The prepared statement follows:]

STATEMENT OF HON. BERYL ANTHONY, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARKANSAS

Mr. Chairman, and members of the subcommittee, thank you for the opportunity of appearing before you today to discuss my opposition to H.R. 5377.

I am deeply concerned about the proposed United States and Israel Free Trade area because of its potentially devasting implications for the United States bromine industry. Therefore, I strongly oppose the removal of import duties on Israel produced bromine and bromine compounds.

My interest in the bromine industry is directly related to the fact that this industry is extremely important to the economy of the United States and to two counties in the Fourth Congressonal District of Arkansas. The bromine industry is a basic industry and is necessary for our nation to maintain a high degree of self-sufficiency. The products derived from bromine are essential to the manufacture of other products. It is essential to the production of various compounds used in the manufacture of flame retardants which are used in many consumer, industrial and defense products. Approximately 15 percent of the bromines is used for oil and gas well completion fluids. Eleven percent of the present domestic production is used in compounds for other industrial and agricultural chemicals.

The combined production of the United States and Israel constitutes 82 percent of the free world production of bromine. It is estimated that the free world produced 650 million pounds of bromine in 1983. United States manufactures produced 280 million pounds and Israel 154 million pounds. Israel now supplies about 62 percent of the free world merchant market outside of the United States.

The 1983 U.S. production of elemental bromine of 380 million pounds had a value of $122 million based upon an average selling price of 32 cents per pound. However, most elemental bromine is used to produce upgraded chemicals and compounds with higher selling prices—25 cents per pound to $1.50 per pound. Thus, the 1983 United States domestic market for elemental bromine and bromine compounds was approximately $325 million.

Our domestic industry has experienced market declines that are not the result of competition. Many of these market losses are associated with governmental regulations such as the Environmental Protection Agency's action in demanding a phase out of the uses of EDB in the production of gasoline. This market constituted 65 percent of the total market in 1977. The banning of the use of EDB in soil and space fumigation will further decrease the domestic market.

The domestic market for flame retardant chemcials and methyl bromide will be further endangered if the Israeli products are permitted to be imported duty free.

The Israeli government subsidizes its bromine industry in many ways such as export subsidies, production loans, insurance coverage, training programs and some transportation costs even though bromine production in Israel is already a low cost production process. In contrast, the U.S. does not subsidize even though the bromine industry is a capital intensive and high cost operation. The cost of drilling a well in South Arkansas is estimated to be $1 million, and the total estimated U.S. investment in bromine production facilities is $300 million.

My familiarity with the bromine production industry is not based upon a short acquaintance. I was born in Union County, and lived there the majority of my life and many of the people working in the industry are my friends and acquaintances. I now represent these people in Congress.

The issue locally is employment and income. Our need is economic development, not further recession. The unemployment in the Fourth Congressional District remains high—over ten percent. This district I represent produces over 85 percent of the bromine produced in the United States. The South Arkansas Development Council estimates that the bromine industry presently provides 1,200 direct jobs and 3,000 indirect jobs in the state.

We are most thankful to have a petro-chemical production and processing industry in Columbia and Union counties. In these two counties, the petro-chemical industry employs 1,130 persons directly and the total estimated payroll from these firms' operations is $34 million annually. The estimated employment in bromine production and processing is 967 persons with an annual payroll of $25 million. Our most conservative of economists would surely agree that the multiplier from payrolls alone is about 1.75. Therefore, the net contribution to the incomes of these two counties resulting from payrolls is $47 million.

In addition, in poor states, all aspects of the economy are more affected by a reduction of employment than in wealthy ones. Tax revenues—local, state, and federal—are all reduced and then all aspects of service to the public suffer. Our school roads and public facilities are already in grave need. Further decreases in income will merely make bad situations worse.

Presently, the bromine industry is operating at only 58% of capacity. In fact, it has been reported that we in the United States have not increased our capacity in the last five years. This has occurred primarily because of the reduction in the use of EDB in gasoline production, and the use of EDB in soil fumigant brought about by U.S. government regulations. Additionally, the industry cannot compete successfully with Israel in the European Community, nor in the remainder of the free world because of lower Israeli production costs and Israeli government subsidies, and most favored nation agreements.

Using the data obtained from the industry, it becomes readily apparent that an additional 15 percent of domestic market will be lost in the event this product is permitted to enter the United States duty free. Reduced sales will reduce employment. Using the standard for the U.S. chemical industry of 20 persons employed for $1 million of sales if the imports from Israel increased $20 million at least 400 American production, marketing and R&D jobs are in jeopardy and over two-thirds of these jobs are in Arkansas. This does not include the jobs of persons supplying the industries. That would mean a loss of $7 million in payroll earnings.

The continued development and utilization of our area's natural resources such as gas, oil, lignite and bromine are essential to South Arkansas' economic well-being.

Mr. DOWNEY. Senator Pryor.

STATEMENT OF HON. DAVID PRYOR, A U.S. SENATOR FROM THE STATE OF ARKANSAS

Senator PRYOR. I, too, have a statement, and I would only summarize that statement.

Mr. Chairman, I want to stress one thing: that I am certainly not here to oppose the proposed free trade area or any similar relationship between Israel and this country.

I do want to say that I am most concerned about the bromine issue. As Congressman Anthony has stated, these two Arkansas counties produce 85 percent of all of the U.S. supply of bromine.

Not only is this Congressman Anthony's home county, but I am also 33 miles away in the adjoining county. These people are our friends, buddies and pals that we went to school with, and have known all of our lives. In south Arkansas this weekend in a nearby county, I imagine close to 50 or 60 people at a large gathering asked me about this issue as I was working through the crowd.

There is a tremendous and intense interest and worry and concern about the issue of losing these plants in southern Arkansas or of having to cutback production.

Mr. Chairman, I would like to state two or three facts for the record. The total work force in these counties today is roughly 37,800 people, and 1,000 to 1,250 more unemployed persons who are either directly or indirectly employed by these plants would increase our local unemployment rate by 2.5 to 3 percent.

The unemployment rate in these counties is already 8.5 percent. A job loss of that scale would mean the loss of up to $40 million from the local economy in payroll alone.

The overall economic impact has been estimated to be $350 million annually. The State of Arkansas already ranks 12th in the Nation in unemployment, and 49th in per capita income. It is a per capita income of $5,467.

Earlier this year, I visited two of these bromine plants, and I found tremendous anxiety. I also suggested to these individuals, who wanted to know what they could do, get a petition up.

Within 2 weeks, I had 6,000 names on a petition that they had circulated with their friends and neighbors, workers in the plants, small businesses directly or indirectly related to this industry, and I must say, Mr. Chairman, that this issue right now in the State of Arkansas is of utmost concern, and it is very troublesome to us.

I think that Ambassador Brock, in statements that he has made, Mr. Chairman, indicates to me at least by implication that the trade policy of our country must not be geared to try to take away American jobs, and I agree with Mr. Brock on this point. I am very hopeful that this issue will be of paramount interest when we consider this issue of the free trade area, and especially the free trade as it relates to bromine and its production in the State of Arkansas, and across our country.

Ours is not the only State affected. I would say that the economic impact would be felt more severely in our State than any other State. Those are my remarks, Mr. Chairman. I appreciate your hearing us out this morning.

[The prepared statement follows:]

Statement of Hon. David Pryor, a U.S. Senator From the State of Arkansas

Mr. Chairman, I appreciate this opportunity to testify on the issue of establishing a Free Trade Area with Israel.

I support efforts by the United States and Israel to improve trade relations that serve our mutual interests. This country has many common interests with Israel, and our economic ties should reflect our strong friendship. Moreover, I believe that trade should receive more attention from our diplomats, and I have frequently urged our diplomatic officials to spend more time and effort discussing the products which our agricultural community supplies to world markets.

I have looked into this particular matter in some detail over the past several weeks, however, and it has become obvious to me that any fair agreement with Israel must exclude bromine products.

My own interest in this subject was triggered by a potential problem for my state of Arkansas. Eighty-five percent of all bromine products produced in this country orginate in two Arkansas counties (Union and Columbia) on the Arkansas-Louisiana border. The anticipated rise in imports under an FTA would be devastating to that part of our state.

Some figures compiled by the Arkansas Industrial Development Commission show just how devastating the economic impact would be:

The estimated impact of the loss of business resulting from the proposed elimination of import tariffs on bromines would result in as many as 1,250 persons in Union and Columbia countries losing their jobs. This includes 250 directly employed persons and 750–1000 indirectly employed, yet directly dependent, persons becoming unemployed.

The total work force in these countries is roughly 37,800 people. 1,000 to 1,250 more unemployed persons would increase the local unemployment rate by 2½–3 percent. The unemployment rate in these counties is already 8.5 percent.

A job loss of that scale could mean the loss of up to $40 million from the local economy in payroll alone.

The overall economic impact has been estimated to be $350 million annually.

The State of Arkansas already ranks 12th in the nation in unemployment and 49th in per capita income ($5,467).

Earlier this year I visited two bromine plants near El Dorado, Arkansas, and found great anxiety among the workers and contractors who would be affected by increased bromine imports. With only a day's notice of my visit, hundreds of workers gathered from surrounding towns to ask about the trade discussions in Washington and Tel Aviv that would be felt in Arkansas and to find out what they could do to preserve their jobs.

I suggested that they should let the Administration know how they feel, and within days they gathered 5000 to 6000 signatures on petitions, which I presented to the International Trade Commission. Those signatures came from people who had monitored the displacement of U.S. bromine products from European markets under a duty-free agreement and who feared the same kind of market loss here.

Like all of you, I always try to protect the interests of my own constitutents, but I could not make this appeal if the pending threat were a matter of poor management by U.S. companies or a simple case of comparative advantage for the Israelis.

There are very compelling circumstances which warrant special consideration for the U.S. bromine industry:

(1) The domestic industry is already reeling from the recent Environmental Protection Agency ruling on the use of EDB as a soil fumigant. Bromines have also been used as an additive to leaded gasoline, and now it appears that leaded gas, already restricted, may be banned outright. This sudden constriction in the domestic market has severely affected our producers.

(2) To replace the foreclosed demand I just mentioned, U.S. producers plan to expand in the area of flame retardants and products used in oil and gas wells. This, however, is an area where the Israelis will concentrate much of their exporting efforts.

(3) Unlike the Israeli industry, U.S. bromine producers are subject to the Toxic Substances Act, other pollution control regulations, and the Superfund tax.

(4) Most important, the Israeli industry receives government assistance not available to our own producers—through government ownership, tax rebates, grants, preferential financing terms, and the use of government-owned shipping lines to transport their goods to foreign markets.

(5) Compounding our industry's distress, Israel enjoys tariff advantages in Europe, Canada and Japan. In the case of Europe, Israeli products are subject to no tariff, while U.S. products are subject to tariffs averaging 10 percent. As a result, a market once dominated by U.S. products has shifted, and now Israeli products have over a 50 percent share.

My constitutents in Arkansas watched us being pushed out of the European market by means of that tariff advantage, and they are understandably fearful that the same thing will take place within our own shores.

In summary, then, here is what we can expect for the bromine industry under the proposed Free Trade Area agreement:

As the U.S. government restricts the permissible uses of bromines, our industry becomes more dependent on two bromine products—flame retardants and a product used in oil and gas wells. These are the very products that the Israelis will try to export to this country.

Israeli imports have tripled in the past three years. We can expect them to triple again by 1985 under an FTA.

Since Israeli products enter the European Community, Canada and Japan duty-free while U.S. products are subject to a 10–15 percent tariff, our unsubsidized industry is at a double disadvantage. By making it easier for Israel to enter our domestic market, we can expect the U.S. industry to operate at substantially less than the current 58 percent of capacity, threatening the existence of a U.S.-based industry.

In addition to the 1250 jobs in Arkansas, jobs in New Jersey, Michigan and Massachusetts will be threatened.

The Administration is anxious to negotiate an agreement as soon as possible, but I believe that the specific effects of this approach should be carefully considered by the Congress. The International Trade Commission has just completed its report to the Special Trade Representative, and that report may be made available to certain members of this committee by tomorrow. We need to review that report and study the expected impact on U.S. jobs before agreeing to the Administration's request for negotiating authority.

I'd also like to ask the Committee to recommend to the Special Trade Representative that specific attention and consideration be given to the domestic bromine industry.

Ambassador Brock has assured me that it is not his intention to eliminate any U.S. jobs through this or any other trade agreement, but I am convinced that an increase in Israeli imports would have precisely that effect.

Like Mr. Brock and members of this subcommittee, I support efforts to reduce trade barriers, but I would hate to see hundreds of U.S. jobs lost to a highly subsidized foreign industry.

Mr. DOWNEY. Thank you, gentlemen.

Beryl, were you making the point that the Israelis subsidized their production of bromine?

Mr. ANTHONY. Yes, let me quickly flip through here.

Mr. DOWNEY. Page 3, it is on page 3, transportation costs, et cetera.

Mr. ANTHONY. Correct, I think, again, that Ken Karmel, representing part of the industry can go into that more, and also, there are two points that I would like to make, just to show you that this is not our first time to rise in support of the bromine industry.

Senator Pryor, Senator Bumpers, and Gov. Bill Clinton flew to Washington, DC, and we all appeared before the ITC when we had a joint hearing over there.

One of the Commissioners remarked that she had been on that Commission for 6 years and it was the first time that she had seen the entire Senate delegation, the Member representing that particular congressional district, and the Governor all appear jointly.

One of the points we made was that the domestic industry is presently operating at 58 percent of capacity, and it is estimated by the industry that if the Israeli products are permitted to be imported duty-free, they would penetrate the domestic market an additional 15 percent.

You are seeing a worrisome problem of losing another 15 percent. We possibly could be looking at the demise of a domestic industry. It cannot be taken lightly, and that is the reason I was trying to state that although I have a parochial interest, we have to take a look at the facts, and the implications there.

Mr. DOWNEY. If you brought as impressive a delegation as the two fine Senators you have, and that great Governor, I could imagine you would have an impact anywhere.

As Ambassador Brock said, we are not interested in taking away American jobs. That is not our purpose. We maintain a positive balance of payments right now with Israel, and I would like to see it remain that way.

Well, thank you very much.

The committee will next hear from Mr. Edward L. Hudgins, policy analyst from the Heritage Foundation.

STATEMENT OF EDWARD L. HUDGINS, PH.D., POLICY ANALYST, THE HERITAGE FOUNDATION

Mr. HUDGINS. I am Dr. Edward Hudgins, policy analyst of the Heritage Foundation, and I appreciate the opportunity to testify before this committee, and to call attention to the benefits of the administration's proposed free trade area with Israel.

I am going to go ahead and summarize large parts of my statement.

Mr. DOWNEY. Fine. Without objection, your statement will be inserted in the record.

Mr. HUDGINS. I will go ahead and try to call attention to some points that I hope will contribute to this debate, and help you to make your decision on the issue.

Summarizing, I believe that this agreement would be beneficial to both Israel and the United States. To the United States, as a number of people have pointed out, because currently Israel has tariffs against 45 percent of U.S. goods entering Israel. These would be dropped, giving U.S. businesses a better opportunity to sell to Israel and we will drop, of course, our remaining 10-percent tariffs, tariffs against 10 percent of the Israeli goods coming into this country. Currently, a free trade area is being phased in between Israel and the Common Market and if we do not respond with something similar, we are going to lose a proportion of that market to the Common Market countries.

This free trade area would also help Israel, first of all, inasmuch as a lot of the goods coming into the United States from Israel are under the general system of preferences, which puts limits on what they can send in, and second, because it is up in the air whether the GSP will be renewed next year. This kind of an agreement would remove that uncertainty.

It would be helpful to our understanding of the benefits of this free trade area to follow up on a question that one of the gentlemen asked in the first round of discussions on this matter.

What is in it for Israel? If you look at it, it seems in one sense we are going to get a lot of benefits, since they are dropping tariffs against 45 percent of our goods. What is in it for Israel? What would happen, for example, if Israel could be assured that the general system of preferences were renewed? Would this not be better for them, better than a free trade area?

Going to a free trade area would require sacrifices from Israel, which might offset the gains. Israel would have to drop the tariffs against 45 percent of our goods, whereas we would drop tariffs against only 10 percent of theirs. In other words, would not U.S. goods flood the market, putting Israelis out of work, destroying their industries, et cetera?

To respond to this argument, you have to go to the basic error that it is premised upon. That is, that economics is a zero sum gain, that the only way one individual benefits is at the expense of another, that everything evens out, that a gain within the system somewhere is a loss elsewhere.

I think that this is an erroneous assumption. The beauty of free trade is that it benefits everybody, that free trade, looking at the general principles, is based on division of labor, based on the idea of people trading freely. In this way, the total product of the individuals and the countries trading is increased.

I will also note that the market is dynamic and this causes misunderstandings sometimes. If you focus on any given company at a given time, you might say, well, the bromine industry or the rose industry seems to be affected adversely and this will pull everything down. But this is the natural course of the market.

Companies come and go. People and companies have to find their niche elsewhere in the economic system. I will add that if you push protectionist measures at every point where it seems to be affecting one industry or another, what you are going to do is first, hurt the consumer.

The consumer will pay more and you will threaten the system itself. Whenever people have tried to cut back on free trade, and you can look at the world today, the results have usually been negative.

The countries that are the most protectionist are the ones that do poorly. The importance of a free trade area is to entrepreneurs, both in Israel and the United States—in other words, to a businessman who has to invest often years ahead of time.

He tries to predict, to anticipate what demand is going to be in the future, and to redistribute the factors of production in such a way as to produce goods which he will sell in the future, hopefully for a profit, if he predicts correctly. If he doesn't predict correctly, he doesn't make a profit. He suffers a loss.

In international trade, there is a particular problem, because you don't know from one year to the next whether the next government is going to put a quota on you, or a tariff on you, trying to protect their own goods.

This makes it very difficult for anyone to plan ahead, especially when you have to make investments often years in advance, especially in terms of factory equipment.

A free trade area would allow the United States and Israel to say, OK, we can assume the market will be there, we can go ahead and build factories, and we can push on with some things we might not otherwise push on with, Israel, that is, and the same thing, of course, on our side.

I also point out, this is an interesting point, that the question of subsidies has come up on a number of occasions, and I hope that in any agreement Ambassador Brock negotiates, that the subsidies in Israel will be cut down. But being in a free trade area with the United States will put pressure on Israel to reverse some of its statist policies.

Israel is not a totally free enterprise country. There are a lot of controls on the economy. Being in a free trade area with the United States, that is, having their market opened to U.S. exporters, I think this is going to put pressure on them, because to adjust in the market, you have to be versatile, agile, and governments are not very versatile or agile. Private companies are, and having a free trade area will put pressure on Israel to become more of a market economy, which would be in everybody's interests.

Moving along, this is a beneficial agreement for those who are interested in free trade, but who are somewhat reluctant. The reasoning is, well, we would like to have free trade, but so many countries discriminate against the United States, and erect tariff barriers against the United States, well, we better do the same.

I heard these arguments in the domestic content hearings and so on. I would think that, what I would call reluctant protectionists would be quite happy with this agreement, because it is a mutual agreement, not simply one-sided, like, for example, the generalized system of preferences, which frankly, is to help out developing countries, which is good. But certainly, I cannot see a problem for those who are opposed to protectionism on principle, but worry about it being done to us.

A final point is the precedent that a free trade area would set. I believe on May 22, 1984, Mr. Steven Koplan of the AFL-CIO testified before this committee against a free trade area with Israel.

He said:

> If an agreement can be reached, and Congress approves, it would be the first such free trade arrangement in U.S. history. Its establishment would make future requests from other countries for free trade areas much more difficult to refuse.
>
> The economic and political rationale given by the Administration for establishing a free trade area with Israel will be cited as a precedent by many other countries in the world.
>
> Is this initiative the start of the process where similar negotiations will soon commence with South Korea, the Philippines or the European Economic Market?

Let us hope so, and I have the reasons for this. The immediate effects of a free trade area unfortunately will not be as overwhelming as Mr. Koplan suggests. A free trade area requires both countries involved to drop substantially all tariffs against each other.

I doubt that many countries today are enlightened and farsighted enough to drop tariffs against all U.S. goods; that is, to allow the United States to export whatever it wants in whatever quantities it wants, to sell the goods for whatever price they want.

I don't think that many countries are going to be willing to do that, to do it reciprocally. I don't think the effect is going to be as he suggests. It could have, however, a beneficial effect in the long run.

First of all, if you look at the reason, one of the reasons why we are here today discussing this matter is because the Common Market has negotiated a free trade arrangement with Israel which threatens to cut us out of the Israeli market. So we are trying to negotiate a free trade area to keep up with the ECC, and you can see how setting up a free trade area creates an impetus. Rather than competing in a self-destructive race, countries under this influence would compete in a race for freedom and against protectionism.

That might be a short- or medium-term effect. In the long term, the example provided by a free trade area would be beneficial; that is, usually an example is much better than an abstract argument.

When you look at the debate over Third World development, people have pointed more and more to South Korea, Singapore, Hong Kong. Here are successful developing countries that have adopted free market mechanisms. The free trade area could provide that kind of example which in the future could be very beneficial.

Finally, I will go ahead and summarize and take any questions. I think that a free-trade area is in the interest of both Israel and the United States. I point out Israel is America's closest ally in the Middle East. We share this country's commitment to freedom and democracy and an economically strong Israel is better able to defend its own interests and U.S. interests.

I do not consider this kind of an agreement anti-Arab or anti-other country. This agreement harms no other party. Israel's increased prosperity assisted by free trade would provide a powerful example for other countries and for citizens and leaders of the Arab countries who have grown tired of the continuing poverty in their countries brought on by their statist economic policies, and brought on by opposition to Israel, so this is not an anti-Arab agreement.

This agreement would benefit both Israel and the United States.

[The prepared statement follows:]

STATEMENT OF EDWARD HUDGINS, PH. D., POLICY ANALYST, THE HERITAGE FOUNDATION

I am Dr. Edward Hudgins, a policy analyst for The Heritage Foundation, and I appreciate the opportunity to testify before this committee and to call attention to the benefits of the Administration's proposed Free Trade Area with Israel. Such a policy would result in economic advantages for the United States and Israel, and would create an important precedent which could further the cause of international free trade.

According to the General Agreement on Tariffs and Trade, a Free Trade Area requires that "the duties and other restrictions of commerce (be) eliminated on substantially all the trade" between two countries. In the past these agreements were called customs unions. Since Article XXIV of the GATT sanctions Free Trade Areas which cover "substantially" all trade, such an agreement with Israel would be GATT legal.

Currently, trade between the U.S. and Israeli is only partially free of impediments. While only 10 percent of Israeli exports to the U.S. are subject to U.S. duties, 40 to 45 percent of U.S. exports to Israel are subject to tariffs averaging 10.5 percent. These tariffs vary for different goods and even for similar goods. Tariffs on $175 million of U.S. electrical equipment entering Israel range from zero to 20 percent of the value of these goods. The $102 million worth of American televisions and radios suffer duties of 22 percent and 18 percent respectively. Tariffs on U.S. office machines and data processing equipment valued at $116 million vary from zero to 14 percent. Steam boilers suffer duties of 10 percent, pumps 14 to 24 percent and internal combustion engines 24 percent, goods valued altogether at $108 million. Metal products worth $54 million suffer tariffs of approximately 16 percent. Of the $38 million in U.S. automotive vehicles sold in Israel, the duty on cars is 35 to 45 percent, on buses 28.3 percent and on trailers 16 percent. Other U.S. goods such as wheat flour, chemicals, optical and medical equipment, and paper products also suffer tariffs. A Free Trade Area with Israel would allow U.S. industries producing these goods and many other goods now subject to duties to sell more of their goods, making larger profits and creating more jobs for American workers.

Israel has a Gross National Product of approximately $23 billion with imports valued at about $8.1 billion. The U.S. has generally enjoyed a balance of trade surplus with Israel, the 1983 surplus being $400 million. If the U.S. does not negotiate a Free Trade Area with Israel, it will not only forego future increases in exports but could actually lose some of its current sales, now valued at between $1.5 and $1.8 billion a year. This is because the Israelis are phasing in a trade agreement with the European Economic Community (EEC). The Manufacturer's Association of Israel calculates that the EEC's share of Israel's imports climbed from 33.7 percent in 1980 to 40.9 percent in the first three quarters of 1983. During this period the U.S. share dropped from 19.3 percent to 18.9 percent. This share is likely to decrease further when the EEC agreement is fully implemented. Therefore, if the products of American industries are to be competitive with those of EEC industries, a Free Trade Area agreement is necessary.

A Free Trade Area would also be of immense value to Israel. First, it would eliminate the few remaining U.S. tariffs on Israeli goods. But more importantly, it would allow Israel to count on tariff-free access to the U.S. market in the future. Currently, many Israeli goods enter this country under the Generalized System of Preferences (GSP). This system allows for the duty-free import of goods from certain countries defined as "developing." A country exporting goods to the U.S. is not charged a tariff as long as the amount of goods in any given category of goods does not constitute 50 percent or more of the total supply of that goods imported by the U.S. from the GSP countries. This means that a country could supply the same quantity of a good, month after month, yet at certain times be charged a tariff, depending on the amount of those goods entering the U.S. from other GSP countries. Thus, Israel must monitor its exports in relation to the exports of other GSP countries least it puncture the 50 percent ceiling. Further, there are dollar limits placed on other goods. To my knowledge Israel has never gone over these limits, but again they must be careful. For example, there is a $50 million limit on CT scan medical equipment. Such machines cost about a million dollars each. A large order could push Israel over the limit.

The GSP is better than no free trade at all but it clearly has its drawbacks. The uncertainly concerning tariffs on specific goods at any given time could discourage Israel from increasing production of certain goods that might go over the specified limits. Thus, the Generalized System of Preferences is no substitute for the full free trade that a Free Trade Area would provide. Moreover, the GSP expires in January 1985 and there is some doubt concerning whether it will be renewed and in what form. A Free Trade Area would end this uncertainty for Israeli exporters and help their economy. And because the Israeli share of the American market is very small, the complete elimination of tariff barriers would pose little threat to U.S. industry.

At this point one might still ask why the Israelis favor a Free Trade area. If they could be assured that the GSP would be renewed, would not the GSP be preferable to a Free Trade Area? Would the substitution of a Free Trade area for the GSP not require sacrifices from Israel, sacrifices that would more than offset the gains? After all, Israel would have to drop tariffs on 40 to 45 percent of the U.S. goods entering Israel, while the U.S. would drop only the 10 percent of tariffs remaining on Israeli goods entering the U.S. Israel has historically run a balance of trade deficit with the U.S. Would not the flood of U.S. goods to Israel aggrevate this problem and make Israel's economic situation even more precarious?

To respond to this argument, one must understand that it is based on the mistaken premise that free trade can benefit one party only at the expense of the other party involved. It assumes that trade is a zero sum game, that gains within the economic system are equal to losses elsewhere in the system. Since this error is widespread today, I will take time here to make explicit what is implicit in the free market philosophy. This will help one better to understand the benefits of a Free Trade Area.

The increase in wealth that most individuals and nations seek is best brought about by a free market, not by state regulation and redistribution of wealth. Individuals and corporations all have their economic strengths and weaknesses. Division of labor allows all to specialize in the production of goods and services at which they are marginally more efficient than others. This results in maximum productive output. At the basis of this system are the assumptions that property is privately owned and that trade between individuals and companies is free and unrestrained by an outside force, such as the government. People must be free to buy and sell as they see fit. Economic transactions between consenting adults must not be subject to state interference.

The market is thus dynamic. Individuals and companies that can sell their goods and services for less than others profit and prosper. Those who cannot match the price and quality of competing goods in the market are forced to find their economic niche elsewhere. It is an economic mistake to focus only on those who are non-competitive in some given area, to attend to their demise and to conclude that for the economic well-being of the nation, such parties must be kept in business at state expense, that is, by transferring wealth from one group to another via subsidies, quotas, tariffs, etc. Such policies undermine the market process and lead to a decrease in productivity, thus less wealth for all. One need only look at the dying, protected industries of Europe or the still-born industries of protectionist Third World nations for graphic examples of this point. International protectionism is not a zero sum game. It is a sub-zero sum game. Everybody loses. In light of these observations, one can understand what Israel and the United States have to gain from free trade.

Having argued from general principles, I wish now to focus on a more specific economic reason why the U.S. and especially Israel would reap benefits from a Free Trade Area. The moving force in the market is the entrepreneur. The entrepreneur attempts to anticipate future demand for goods and services. He risks his money to redistribute the resources of production so as to produce goods which in the future will sell for more than the costs of his investment. If he predicts correctly, he earns a profit. If he does not, he loses money.

Internationally, tariffs discourage trade. The entrepreneur in one country is faced with an added cost which reduces the changes of his success in exporting to foreign markets at a profit. But even more detrimental is the political uncertainty that exists in international trade. The entrepreneur must invest capital and resources well ahead of the time when the goods will be sold in the market place. Investments in plants and equipment must usually be paid off over many years. The entrepreneur producing for international trade is uncertain whether tariffs will be increased on his goods or quotas imposed. He does not know when certain goods suddenly might be singled out as "threatening," needing to be protected against. Foreign producers have cause to worry as they view current U.S. attempts to restrict foreign competition in automobiles, steel, textiles, leather goods, etc.

A Free Trade Area would eliminate this sort of uncertainty. It would allow the entrepreneur the certainty that his productive efforts will not prove futile due to the exercise of arbitrary state power. The new opportunities opened to Israel under the proposed agreement should not be underestimated. Enlightened Israelis understand that their country will have to adjust. Non-competitive industries will give way under pressure of more competitive American goods. But opportunities will be opened which can be exploited. Industries in which the Israelis are competitive can be developed further. The benefits of free trade will more than make up for the inconveniences of the period of adjustment.

A Free Trade Area might also promote more free enterprise *within* Israel. Israel has a very regulated economy. In a Free Trade Area with the United States, pressures would be exerted for decontrol. This is because success in the market demands versatility and an ability to change quickly in the face of a changing market situation. This is best done by private entrepreneurs, unhampered by government controls.

It should be noted that there are people in Israel who are uneasy about the prospects of a Free Trade Area. For some it is simply an uneasiness that comes from trying something new. Unfortunately, total free trade between countries is a rare thing in human history. Others are concerned for the same unsound reasons accepted by American protectionists. They worry that Israel will be flooded by American goods, that Israelis will be thrown out of work and that the economy of Israel will decline. Happily, many Israelis are wise enough to see that statist policies have gotten them into their current terrible economic situation, and that part of the solution to their problems is not more of the same destructive policies but the proven policy of free trade.

Finally, I would like to address myself to the precedent that a Free Trade Area with Israel might establish. On May 22, 1984, Mr. Stephen Koplan of the AFL-CIO testified before this committee against a Free Trade Area with Israel. Mr. Koplan said, "If agreement can be reached, and Congress approves, it would be the first such free trade arrangement in U.S. history. Its establishment would make future requests from other countries for free-trade areas much more difficult to refuse. The economic and political rational given by the Administration for establishing a free-trade area with Israel will be cited as precedent by many other countries in the world. Is this initiative that start of the process where similar negotiations will soon commence with South Korea, the Philippines, or the European Economic Community?" My answer would be, let us hope so. The reason cited by Mr. Koplan for opposing a Free Trade Area are just the reasons that recommend it. Allow me to elaborate.

First, unfortunately, the immediate effects of a Free Trade Area will probably not be as overwhelming as Mr. Koplan suggests. The reason for this is easy enough to understand. A Free Trade Area requires *both* countries involved to drop "substantially all" tariffs against each other. (With any luck, in the agreement negotiated with Israel, we can drop the adjective "substantially." On hope that all tariffs will be eliminated.) I doubt that many countries today are enlightened and foresighted enough to drop all tariffs against the United States and allow us to export them whatever we want, in whatever quantities we want, and for whatever price we wish to charge.

But this proposed agreement could have some positive short-term effects and should have substantial long-term effects. I point out that one of the reasons whey the United States is considering a Free Trade with Israel is because the common market has negotiated a free trade agreement of its own with Israel which, if we do not match or better, could cause us to lose our share of the Israeli market. A Free Trade Area could act as an incentive for freedom. Rather than competing in a self-destructive race to erect more trade barriers against each other, countries under the influence and dynamics of a Free Trade Area might compete in a race towards more freedom and against protectionism.

I also point out that the possible long-term effects of a successful Free Trade Area as a model or paradigm for future discussions and decisions concerning international trade. An example is often much more persuasive than an abstract argument. Much debate on Third World development, for example, is beginning to center on examples of South Korea, Taiwan, Singapore and the colony of Hong Kong, with their successful, growing economies and relatively free market policies. A successful Free Trade Area with Israel could provide a powerful example and powerful arguments against protectionism in the future. I stress here the importance of examples in policy debates and decisions, and the potential importance of a Free Trade Area as such an example.

It should also be noted that many individuals endorse protectionist policies reluctantly, reasoning that all countries would be better off without protectionism, but that since so many countries erect barriers against the United States, we must do the same in return. I will not address the merits of this highly questionable policy of retaliation. I will simply point out that reluctant protectionists could only be pleased by the mutual nature of a Free Trade Area and the effects that such an example could have.

I also note that free trade in general contributes to a desirable moral climate internationally. It affirms the importance of the individual, in this case in his role as consumer. It affirms the principle that individuals ought to deal with one another based on free, mutual agreement, with no man initiating the use of force against another. It sets up a standard which, if adhered to by sovereign nations, could only contribute to a more peaceful world.

A Free Trade Area would be in the interest of both the United States and Israel. Israel, being such a small country relative to the U.S., would demonstrate a great deal of courage, foresight and wisdom to enter the proposed agreement. Israel would reject the errors of protectionism and pursue the long-term benefits of free trade.

Israel is America's closet ally in the Middle East, sharing this country's commitment to freedom and democracy, and American opposition to Soviet expansion. An economically strong Israel is better able to defend itself and thus protect both its own and U.S. interests. Yet one should not think of this agreement as anti-Arab or anti-any other country. This agreement harms no other party. Israel's increased prosperity, assisted by free trade, would provide a powerful example for all other countries, and especially for the citizens and leaders of Arab countries who grown tired of continuing poverty brought on by statist economic policies and military opposition to Israel. A U.S.-Israel Free Area would advance the economic and political goals of both countries and set a positive example for the rest of the world.

Mr. DOWNEY. Thank you, Doctor.

Mr. Frenzel, do you have a question?

Mr. FRENZEL. I do have a question, Mr. Chairman.

I would like to apologize to this witness and to all the witnesses for our membership here. As he knows, there are three rather large conference committees meeting, the House is in session. One of our prominent committees was forced to abandon work because it was trying to proceed during the 5-minute rule.

We are doing the best we can to move forward on a bill under very adverse circumstances to—I hope you will all understand that we are trying to review your testimony carefully and we will make sure we are well counseled by staff in your response to questions that we might not otherwise pick up.

I first apologize to you and apologize to Secretary Herzstein. When he appears, I am not going to be able to be present.

The witness has presented excellent testimony. On page 4, you indicate that the Israelis, if they could be assured of an extension of the GSP, might not have very much to gain. There is no such assurance?

Mr. HUDGINS. That is correct. It comes up for renewal January of next year. Not only is it questionable whether this will be renewed, there are questions as to what form it will be renewed and many other things of that sort.

Mr. FRENZEL. That, of course, leads into your discussion that free trade helps everybody. To make a deal, there has to be a willing seller and buyer, and both sides of the deal are advantaged and in some years, someone may have a plus balance and in some other years, somebody else may have, but in general, human condition has been elevated whenever we have had periods of trade expansion throughout the world.

Mr. **Hudgins**. In the history of economic developments, at any given time, you can focus on which industries are dominant and in which areas of the country, and which countries are best off in producing one good or another.

And it is a dynamic process, always changing, and I understand the concern of people from Arkansas about the bromine industry, the people from California about their industries and so on. But again, this is the nature of the game that we are playing.

And unfortunately, if you try to stop the game to help the given players at any particular moment, you can destroy the game, and you will end up in a situation like, for example, in Western Europe. Looking at their industries, a lot of their protected industries have grown flabby and noncompetitive, and the Japanese and the Americans are running rings around them.

Mr. **Frenzel**. They can't sell offshore in any kind of reasonable competition, and so we have seen the loss of 3 million jobs in Europe.

Mr. **Hudgins**. Yes, and we have created something like 20 million jobs in this country over the last decade. The Europeans were aghast. It was reported in the Post earlier, the French were marveling, and asking the President, well, what is happening here? Good question.

Mr. **Frenzel**. The other statement that caught my ear was that you said this bill is not against anybody. It harms nobody? In my judgment, I think you can go even farther than that and I would ask you, if this bill is successful, and if the arrangement is successful, it seems to me it then stands as some kind of a model for future development with other countries, some maybe as friendly as Israel and maybe some less friendly, because in every case, the same relationship will obtain a willing buyer and a willing seller and all sides profit.

I see this—a group of us were celebrating the passage of the Reciprocal Trade Act of 1934 and marveling at how our trade attitude and our national prosperity changed as that act again came into full force and play.

More authority was given as the years went on to the U.S. negotiators who negotiated more of these reciprocal agreements each year until it really began to flower in the postwar period, which was the greatest increase in world GNP that ever existed, basically to build on that building block of the 1934 act.

Perhaps I am too much of an idealist, but does this have that potential for the future?

Mr. **Hudgins**. It sets a precedent. Is it GATT legal, and how does it relate to other agreements? I look at the GATT as a means to setting up a free trading system around the world.

We have other values to pursue as well, including security and things of that sort, but yes, I see this definitely as a precedent.

I am trying to recall, I believe a couple of years ago, we made overtures to Egypt on this kind of thing. I don't have the information handy, but again, fine, if the Egyptians want to get in on this, fine.

If you look at Singapore, Hong Kong, South Korea, Taiwan, you see them doing far better than other developing countries. You ask why, and find they have a freer flow of capital.

If you look at Argentina, incredible resources down there, one of the reasons they are in such bad shape, they have all kinds of regulations that block free trade. And Singapore, with no resources at all, and people standing on top of one another, are developing along fine.

This will set a precedent. People will say, hopefully, 5 years from now, well, look at the success of the U.S. free trade area with Israel, maybe we should consider that.

Mr. **Frenzel**. Your testimony has been particularly instructive to me. You have pointed out, forget the short-run advantages for anyone. The long-run advantages to the bilateral relationship are going to be enormous in any case, and the potential long-run advantages to the world—and here I am thinking, the Canadians recently asked for some interesting discussions that are now taking place, related to this issue, and therefore, I am most grateful, and I yield back the balance of my time.

Mr. **Downey**. Thank you.

Mr. Chairman?

Chairman **Gibbons**. Doctor, thank you for coming. I missed part of your testimony, but I will read all of it because I am very interested in this subject.

I agree with your conclusions. I want to say, because I notice that the next witness is from the National Association of Arab Americans, and I have talked to Arab leaders when they were in this country about this legislation and about what the impact is upon them, that I have assured them personally that if they want to enter into this kind of arrangement to bargain and see what we can do on a reciprocal basis, and I, for one, would introduce the legislation for them and we could see what could happen.

I do not want this to ever take on any kind of Arab-Israeli type of conflict or the United States playing them off against each other, or preferring one over the other.

That is an act that I personally am willing to extend to them, if they want to sit down and bargain. This is really just a bargaining authority act.

Mr. **Hudgins**. A quick comment. The Middle East is a human tragedy from many perspectives, and I think that this kind of thing, if it focuses attention on the economic enterprise, if you look at one of the things that after two world wars, the Europeans finally said, maybe we should worry about things other than the nationalistic differences and focus on economic integration, et cetera, if we can get into the enterprise of developing ourselves economically together, perhaps we will have less war; and the Common Market was one of the results, et cetera.

At least we don't have to worry about Germany and France going to war any time soon, and if this kind of a process can be started in the Middle East, that would be great.

It would be marvelous if Egypt and Israel would get together and say, look, economic development is going to help everybody, and especially the Arab contries.

Jordan, if they want to get involved, that is fine. That would be a much better enterprise to engage in than what is going on over there now, so that is a marvelous precedent. And if anything, it is very pro-Arab in the sense that it sets this example.

Chairman GIBBONS. Thank you, sir.

Mr. DOWNEY. The committee will next hear from Mr. David Sadd, National Association of Arab Americans.

Chairman GIBBONS. Mr. Sadd, I have to be at H-208 in 12 minutes. I will read your testimony and consider it, and you are always welcome in the office.

Come by and talk to me.

Mr. SADD. I appreciate your comments, as well, and I would like to come by your office.

Mr. DOWNEY. Mr. Sadd, I am going to ask unanimous consent to place in the record Mr. Soffa's testimony, who was unable to be present yesterday.

[The statement of Mr. Soffa follows:]

STATEMENT OF ALBERT SOFFA, CHAIRMAN OF THE BOARD OF DIRECTORS, KULICKE & SOFFA INDUSTRIES, INC., AND CHAIRMAN, INVESTMENT COMMITTEE, THE AMERICAN-ISRAEL CHAMBER OF COMMERCE AND INDUSTRY, INC.

INTRODUCTION

I am Albert Soffa, Chairman of the Board of Directors of Kulicke and Soffa Industries, Inc. of Horsham, Pennsylvania. Kulicke and Soffa develops, manufactures and markets capital equipment, including wafer saws, die bonders and wire bonders, used for the assembly of semiconductor devices. Our equipment ranges in speed, complexity and price, from manually operated models costing approximately $4,000 each, to fully automatic, computer-controlled units selling for approximately $100,000 each. In addition, the company manufactures and distributes a comprehensive line of expendable micro-tools and accessories used in its machines as well as those of its competitors. We have plants in the United States, Israel and Europe. We sell our products worldwide. In 1983 our sales were $67.3 million. We employ approximately 1,698 people at our facilities throughout the world. Our workforce in the United States is 957 people, and we employ 481 people in Israel.

Today, I am testifying in support of the proposed Free Trade area on behalf of my company. In addition, I am also Chairman of the Investment Committee of the American-Israel Chamber of Commerce and Industry, Inc., and speak for that body as well. With me is Sidney N. Weiss, special counsel to the Chamber of trade matters.

Both my company and the Investment Committee of the Chamber are deeply concerned with trade and investment between Israel and the United States. As such, we support the establishment of the Free Trade Area.

In short, in our view, the elimination of trade barriers contemplated by this proposal will have a salutary effect on the expansion of bilateral trade between the United States and Israel. We belive that Congress should give this proposal prompt and affirmation action.

Benefits of the free trade area to Israel and the United States

The benefits of the Free Trade Area to each of the two member countries would be significant, although not identical

Benefits to the United States

The benefits to the United States from the implementation of the Free Trade Area are as follows:

First, the $8 billion yearly Israeli import market will be open to United States exports on a completely trade-barrier-free basis. Currently, United States products (and other countries' products) are subject to custom duties, which especially in the consumer field are quite high. For example, in 1983 our company imported approximately .3 million dollars worth of United States computers into Israel at a total duty and tax rate of 41%. In addition, in the Appendix to this testimony, we have set out a listing of the duties on products from the European Community and the United States together with the percentage of the market held by United States imports. With the elimination of all tariffs on products originating in the European Community by 1987, the United States will be in a clear disadvantage in the Israel market without a Free Trade Area. With a Free Trade Area, the United States will unquestionably increase its market share.

We expect that elimination of Israel customs duties will open the Israel consumer goods' market to American products on the basis of quality and price, without distortions due to tariff and non-tariff barriers. The United States' success in selling American products in Israel in competition with European, local and other products will assume global significance. The successful sale of United States products in Israel on a free trade basis will be conclusive proof to other countries, with much larger markets, of the feasibility to eliminate barriers and disincentives to the importations of United States products.

Second, the Free Trade Area will give the United States easier terms of entry into the European Common Market. Fortuitously, both the European Economic Community and the United States will have Free Trade Areas with Israel. Therefore United States products shipped to Israel, physically transformed and with added value, will be granted duty-free into the European Economic Community by virtue of the Israel-European Free Trade Area.

Of course, in certain respects, the same can be done even today if administrative steps are taken, involving drawbacks on customs duties paid in Israel for those raw materials from which exported goods are being manufactured. The Free Trade Area, however, will help get rid of burdensome paperwork and difficult-to-retrace pricing distortions. In our company's case, this would have an immediate beneficial effect. We ship printed circuit boards to Israel in bond for further work. With the elimination of the paperwork requirements for those products as a result of a Free Trade Area, cost will be greatly reduced.

Third, the existence of the United States and European Free Trade Areas with Israel will encourage much closer economic cooperation between the United States and Israel. It will serve as an incentive to the establishment of joint ventures in Israel to help market the products of United States high technology on a duty-free basis throughout Europe.

Fourth, the establishment of a Free Trade Area with Israel will generate additional funds for Israel from its increased exports to the United States. Traditionally the Israel economy prefers United States-made equipment and products. Therfore, in all probability, the funds generated from increased Israeli exports will be utilized for purchases from, and payments to, the United States.

Benefits to Israel

Israel exports are unjustly disadvantaged in the world marketplace because of factors not related to the quality and efficiency of its products. These disadvantages would be reduced by the Free Trade Area. Israel currently has one of the highest per capita debts of any country. This is primarily the result of its expenditures on defense. To service and retire its debt, Israel must export a great part of its production. Because of the political situation in the Middle East, Israel's trade with its neighbors is negligble. Thus, together with its extraordinary military burden, Israel has to transport its exports thousands of miles.

Moreover, much of the exports from the world's developing countries rely on low cost labor. Israel is an exception to this rule. the quality of the Israeli worker coupled with the fact that Israel is a deeply rooted democracy with highly organized labor movement, results in Israeli products being known for their technological advancement, sophistication and style, rather than low price. Consequently, Israeli products are often uncompetitive in countries imposing high or restrictive tariffs.

In recognition of these factors, and in accordance with its own interests, the European Economic Community has established a Free Trade Area with Israel. The European-Israel Free Trade Area provides that the zero tariff level will be reached by 1989 for almost all non-agricultural commodities and products.

At present, approximately 90% of Israeli exports to the United States are entered free of duty. Over one-third of those exports are entered under the Generalized System of Preferences (GSP). The GSP, while beneficial to Israel, contains certain drawbacks to Israel, which would be eliminated by the establishment of a Free Trade Area. In fact, the proposed Free Trade Area would have a number of advantages to Israel.

The first advantage for Israel of a Free Trade Area is certainly in regard to the status of its future exports to the United States. Under the present GCP system, a country, product, or "country-product pair" may be "graduated", that is eliminated from GSP benefits if certain limits are reached. In 1983, for example, if a country accounted for more than $57.9 million of the imports of an article to the United States or over 50 % og the value of total imports of that article, then its GSP benefits for that product would be eliminated. Under the Free Trade Area proposal, there would be no threat of elimination, once the qualifying products were identified. This would enable the market to make rational decisions on production, capacity and the like.

The second benefit for Israel of A Free Trade Area with the United States is expanded access to the United States market. Israeli articles will not be restricted to the GSP annual dollar limit. In addition, all products, whether presently dutiable, free of duty, or GSP, would be free of duty under the Free Trade Area proposal. For our Company, and for the American consumer, this would mean continued lows costs for products currently using GSP components and parts. In 1983 our company imported $5.5 milion in GSP duty-free parts and products from Israel. In 1984, this figures was $9.5 milion. If there were no GSP, these products would have been dutiable at the duty rates of 4 to 8 percent. The Free Trade Area would ensure that the price of such products will remain low.

The third advantage for Israel of a Free Trade Area with the United States is the fact that access to the United States market would be on a free, open and reciprocal basis, unencumbered by extraneous constraints. The Free Trade Area will be a concrete expression of the benefits to be realized from free trade. Each country's products will compete freely in the marketplace of the other. As a result, considerations such as per-capita GNP and other criteria not directly related to the subject would not be the determinants of one country's products ability to be successfully sold in the market of the other. Efficiency, quality and price would be the only determinants of the competitive advantage for a product of one country in the market of the other country.

The United States and Israel have common commercial interests which would benefit from the implementation of the foreign trade area

In addition to each country's unique benefits to be derived from the Free Trade Area, the United States and Israel have common economic and commercial interests which would benefit from the implementation of the Free Trade Area.

First, both the United States and Israel are heavy investors in research and development and exporters of know-how. That means that the Free Trade Area will not result in the drain of one country's intellectual property to the other country's advantage. A more likely scenario is that both countries will cooperate in the joint development of new technologies whenever mutually desirable.

Moreover, the United States and Israel have a commonality of interest in protecting intellectual property. Both countries are alert to the fact that their exports of technological products to third country markets effect billions of dollars worth of intellectual property. Both countries are therefore extremely aware that these rights must be protected against theft, counterfeiting and infringement. The enforcement of intellectual property rights is vigorous in both countries because the protection of these rights ensures the future growth industries in both countries.

The second mutual benefit to both countries derives from the fact that both countries have active and independent labor movements linked to, and nurtured by, democratic institutions. American workers are justifiably wary of efforts to liberalize trade when it is at the expense of American jobs and American wages earned through a vibrant and democratic labor movement. In the case of Israel its labor movement is among the most active in the world. The wages, benefits and social protection it has achieved can be claimed by very few nations in the world. Therefore, the establishment of the Free Trade Area will benefit the workers in both countries.

Third, unlike many developing countries, both the United States and Israel have liberal investment policies. For example, Israel permits complete repatriation of dividends without restriction. Such policies coupled together with Free Trade would be eloquent testimony to the United States' trading partners on the advisability of liberal trade and investment policies with the United States.

Finally, the United States-Israel Free Trade Area would be a continuing testimony to the concept that two countries can practice open and free trade among themselves while at the same time providing to their workers decent wages and working conditions and the most advanced social welfare and medical systems and facilities.

CONCLUSION

The advantage of a Free Trade Area are numerous. In addition to deepening an important commercial relationship, a Free Trade Area will tend to lower prices and create jobs and new opportunities in both the United States and Israel without damaging United States interests.

Accordingly, we request that Congress should act favorably on this proposal.

APPENDIX—CUSTOMS DUTIES ON CERTAIN CONSUMER PRODUCTS

[Amounts in percent]

Description	Rate of duty		U.S. total imports
	U.S.	EEC	
Tractors	20.0	20.0	21
Passenger cars up to 1800 CC	25.0	25.0	0
Passenger cars over 1800 CC	32.5	32.5	20
Light transport vehicles	25.0	25.0	1
Clocks	20.0	14.8	3
TV's	22.0	20.0	0
Paper paperboard	28.0	22.5	13
Fabrics of synthetic fibers	14.9	10.6	18
Felt fabrics	22.5	13.1	4
Bonded fiber fabrics	22.5	15.7	24
Footwear, outer sole—leather	20.0	20.0	2
Glassware for table, kitchen, etc.	20.0	20.0	6
Bolts, nuts, screws of iron	30.0	30.0	67
Cigars	24.0	15.0	27
Tobacco	20.0	12.5	28

Note.—All Customs duties on the above products bill be lifted completely on products originating from the European Economic Community by 1987.

STATEMENT OF DAVID SADD, EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF ARAB AMERICANS

Mr. SADD. The National Association of Arab Americans welcomes this opportunity to present testimony. Trade is an important component of our Nation's foreign policy. It can help to strengthen our partnership with countries that share our concern for peace, stability and mutual economic growth.

Yet, the United States must take steps to ensure that our trade relations with foreign countries do not endanger vital domestic industries, or contradict our broader foreign policy interests.

Establishing a free trade area with Israel alone does threaten to do both. There is considerable evidence that establishment of the free trade area with Israel would not be in the United States' best interest. Continued subsidization of Israeli industries by their government would make it difficult for American industries to compete in Israeli markets.

There would be some damage to important U.S. industries, and industrial development of a foreign country might be promoted at the cost of U.S. jobs.

Currently, under the generalized system of preferences, no country is permitted to export duty-free to the United States more than 57.6 million of any one product. Removal of this limit would be a consequence of the establishment of a free trade area and leave high-technology industries in the United States particularly vulnerable.

Israel seeks to increase its exports of high-technology products to the United States. In 1981, Israeli high-tech exports amounted to $1.2 billion or 33 percent of their total industrial exports.

By 1991, the Israeli ministry of trade intends to increase the level of high-tech exports to $6.8 billion or 62 percent of Israel's total industrial exports.

At that rate of growth, absent a free trade area, U.S. imports of certain Israeli high-tech products would soon exceed the competitive needs limits under the GSP. But the competitive needs limit was designed to protect American industry and jobs from an influx of duty-free goods into the domestic market.

This threat to our high-tech industry is compounded because the Israeli Government has for some years subsidized 50 percent of its R&D on high-tech and defense-related industries.

A free trade area with Israel would also have potential negative impact in other important American industries. Representatives of the citrus industry, tomato growers and other agricultural producers, textile, jewelry manufacturers and the chemical industry have all expressed their opposition or concern with respect to the proposed free trade area.

Moreover, these important sectors will find a very limited market for their products in Israel. The benefits of this purportedly two-way arrangement may be one-sided.

The size of the Israeli market presents inherent limitations for American exports. If the United States intends to negotiate bilateral agreements establishing free trade areas as a method of promoting more liberalized international trade, it would be better served by negotiating with several countries in this regard, and countries whose markets may be better equipped to offer an attractive port for U.S. goods.

Beyond the instability of the Israeli economy, there has been an absence of any demonstrable predisposition there to favor American products.

In 1983, for instance, Israel received approximately $2.5 billion of U.S. aid, but only imported $2.3 billion of U.S. goods. In other words, our foreign aid to Israel exceeded the amount of goods we were able to export to Israel.

Moreover, I would point out that the Congress authorized for the first time the spending of our foreign aid dollars in Israel. In this case, it was for the development of a high-performance jet aircraft called the Lavi, and it is the start of a $6 billion program.

It is being produced in Israel for export, so in fact, in this particular case, we are providing moneys to finance the development of the Israeli military jet export industry, a direct competitor to our own jet aircraft industries.

If Israel does not presently effect a buy American standard, we must be concerned that if the free trade area is established, whether American producers would be encouraged by Israel to compete favorably there.

In its purchase of coal, for example—and we have a circumstance where our own coal industry has done poorly, in such States as West Virginia, which suffer high unemployment—but in the purchase of coal, Israel has favored South Africa by a rather large degree over the United States. In 1982, Israel purchased only 96,000 tons of coal from the United States while purchasing 700,000 tons of coal from South Africa.

In the eighties, trade is part and parcel of U.S. foreign policy. A United States-Israeli free trade area negotiated with Israel alone would tend to aggravate what many of the Arabs believe is an imbalance in our Middle East policy.

We must consider the vast market potential of the Arab world. While Israel is described as an $8 billion import market, in 1982, the Arab world collectively imported over $70 billion.

In 1983, the United States enjoyed a $4.6 billion trade surplus with the Arab world, even though there were impediments to this trade; I would mention the antiboycott regulation aspect of the Foreign Corrupt Practices Act.

In summary, we believe that the proposed free trade area for Israel is not, alone, healthy for the United States. If the object is to increase job opportunities for Americans, we should pick a country which offers a better market for U.S. goods.

If it is to provide economic aid to Israel on a preferred basis, then we point out that we already have a foreign aid program and Israel presently enjoys a substantial benefit from the economic support fund in our foreign aid program, and it is a framework which should be used for simple preferential economic aid.

In closing, we would like to recommend that you let the health of American industry, and job opportunities for American workers, the determining factors in this committee's decision regarding the negotiation of a free trade area for Israel.

[The prepared statement and attachments follow:]

STATEMENT OF DAVID SADD, EXECUTIVE DIRECTOR, THE NATIONAL ASSOCIATION OF ARAB AMERICANS

The National Association of Arab Americans welcomes the opportunity to present to this committee testimony on the proposed establishment of a Free Trade Area with Israel (HR 5377). As representatives of the more than three million Americans of Arab descent across the United States, the National Association of Arab Americans is deeply concerned that U.S. trade and economic policy in the Middle East promote U.S. national interests in the region and contribute to the well-being of both the United States and the countries of the Middle East.

Trade is an important component of our nation's foreign policy. It can help to strengthen our partnership with countries that share our concern for peace, stability, and mutual economic growth. Yet, the United States must take steps to ensure that our trade relations with foreign countries do not endanger vital domestic industries, nor contradict our broader foreign policy interests. Establishing a free trade area with Israel, unfortunately, threatens to do both.

While the United States has encouraged industrial growth in less-developed countries by lowering import tariffs through the Generalized System of Preferences (GSP) and the Caribbean Basin Initiative, the creation of a free trade area is an unprecedented measure: the United States has no such arrangement with any country.

Currently, 90 percent of all Israeli exports to the United States enter duty-free as a result of either Israel's "most-favored-nation" status, or its "special eligibility" under the GSP—which is provided even though Israel does not qualify as a "less-developed" country. The remaining 10 percent of Israeli exports to the United States are largely from their agricultural and textile industries.

The National Association of Arab American believes a U.S.-Israeli free trade area should be opposed for both economic and political reasons. There is considerable evidence that establishment of the FTA would not be in the United States' best interests: continued subsidization of Israeli industries by their government would make it difficult for American products to compete in Israeli markets; it would harm important U.S. industries; and it would promote industrial development in a foreign country at the cost of U.S. jobs.

THE HIGH-TECH THREAT TO DOMESTIC INDUSTRIES

The establishment of a free trade area would help Israel at the expense of domestic American industries. Currently, under GSP, no country—Israel included—is permitted to export, duty-free to the U.S., more than $57.6 million per year of any one product. Removal of this limit, which would be a consequence of the establishment of the FTA, would leave high technology industries in the United States particularly vulnerable. High-tech is a pivotal growth industry in the United States, vital to our national security. We should not undertake measures such as the FTZ which would undermine our continued position of leadership in that industry.

Israel seeks to increase dramatically its exports of high technology products to the United States. In 1981, Israel high-tech exports amounted to $1.2 billion, or 33 percent of their total industrial exports; by 1991, the Israeli Ministry of Trade intends to increase the level of high-tech exports to $6.8 billion, or 62 percent of total industrial exports.

At that rate of growth—*absent* a FTA—U.S. imports of certain Israeli high-tech products would soon exceed the competitive needs limit under the GSP, thus rendering them ineligible for export. But the competitive needs limit was designed to protect American industry and jobs from an influx of duty-free goods into the domestic market. A FTA would remove this protection, leaving American industry and labor vulnerable.

This threat to our high-tech industry is compounded because the cost of developing new high-tech products in Israel is about one-half that in the United States. Further, the United States has aided—and continues to aid—the development of the Israeli high-tech industry through massive infusions of military and economic aid. Additionally, the Israeli government has for some years subsidized some fifty percent of the research and development in its high-tech and defense-related industries.

OTHER U.S. INDUSTRIES HURT

A free trade area with Israel would also have a negative impact on other important American industries. Representatives of the citrus industry, tomato growers and other agricultural producers, textile manufacturers, jewelry manufacturers and the chemical industry, have all expressed their strong opposition to the proposed free trade area. Moreover, these important sectors will find a very limited market for *their* products *in* Israel. The benefits of this purportedly two-way arrangement appear to be extremely one-sided.

And the AFL-CIO, a self-proclaimed supporter of Israel on non-trade-related issues, opposes the free trade area with Israel because it threatens American jobs.

ISRAELI ATTITUDES AND ECONOMIC INSTABILITY MEAN LIMITED POTENTIAL FOR AMERICAN EXPORTS

The size of the Israeli market and the instability of the Israeli economy present inherent limitations for American exports (see Attachment A). If the United States intends to negotiate bilateral agreements establishing free trade areas as a method of promoting more liberalized international trade, it would be better served by negotiating first with a country whose market for American manufactured goods is much greater and the benefits to dometic industry can be more easily demonstrated. Brazil, for example, with its sizeable population has a $15 billion market, compared to only an $8 billion market is Israel (which, as we argue below, is more chimera than real). Beyond the instability of the Israeli economy (plagued with 400% inflation), the absence of any demonstrable Israeli predisposition to favor American products places inherent limitations on the plan's workability—despite massive U.S. economic and military assistance to Israel.

In 1983, for instance, Israel received $2,485 billion in U.S. aid but imported only $2.3 billion worth of goods from the U.S.—a margin of $185 million of U.S. aid not spent in the U.S. Moreover, in the Continuing Budget Resolution for 1984, Congress authorized $500 million to go to Israel for the development of their Lavi aircraft, *$250 million of which may be spent in Israel.* As a result, American defense contractors are losing $250 million in business and American workers will be deprived of at least 7,000 jobs (see Attachment B).

If Israel does not presently effect a "buy American" standard to its expenditure of American aid, it is doubtful that, should the FTA be established, American producers would be encouraged by Israel to compete favorably there. In its purchase of coal, for example, Israel has favored South Africa over the United States (see Attachment C). Despite massive U.S. economic aid, in 1982 Israel purchased only 96,495 tons of coal from the United States, but 700,000 tons from the apartheid country of South Africa.

Further, the Israeli government is in control of half of all that country's industrial investment: it affects pricing by means of subsidies, and the capital market by supporting interest rates and directing credit. Even with the elimination of tariffs, American manufacturers would still have to compete with industries subsidized by the Israeli government.

Economic implications of the FTA are grim for the U.S.: the promotion of industrial growth in Israel at the cost of U.S. jobs; tax revenues from U.S. industry and workers foregone; loss of tariffs.

TRADE AND POLITICS

In the 1980's trade is part and parcel of U.S. foreign policy. Given that context, trade concessions for Israel should be made contingent upon behavior which is compatible with America's national interest. That does not presently appear to be the case.

Since the passage of the Jackson-Vanik amendment, U.S. trade relations with the Soviet Union have been directly related to that country's policy toward human rights and the emigration of Soviet Jews. Is not freedom, dignity, and self-determination for the Palestinians equally precious? Many of the Palestinian inhabitants of the Israeli-occupied territories have been subjected to a consistent pattern of deprivation of their human rights by the Israeli government and Israeli occupation forces. Christian and Moslem institutions are threatened by Israeli extremist groups in the West Bank. We submit that Israel should be held accountable for its policies, which have caused much suffering for Palestinians and Lebanese in recent years. If trade is indeed an extension of our foreign policy, then trade concessions for Israel should be contingent upon civilized behavior.

Last December, following the Reagan-Shamir summit, the Administration's interest in exploring the establishment of a free trade with Israel was announced concurrently with the strategic cooperation agreement. However, in return for generous trade concessions, an unprecedented level of U.S. grant assistance, and broader strategic and military cooperation, Israel offered no political concessions. Instead, it reaffirmed its rejection of the Reagan peace plan and its refusal to put a freeze on building Israeli settlements in the West Bank. It continues to oppose any U.S. arms sale to moderate Arab countries—even though the U.S. needs to cultivate countries in the region in addition to Israel. And it refused to make a commitment to inform the United States before taking unilateral military action against its neighbors.

To justify such U.S. largess, proponents of the U.S.-Israeli free trade area point to Israel's current economic difficulties and overwhelming defense burden. Israel, however, is not a less-developed country. It has a relatively high GNP per capita of $4,500, and enjoys a high standard of living. Moreover, many of Israel's economic problems can be traced directly to controversial policies carried out by its government, including the 1982 invasion and occupation of Lebanon and the continued construction of settlements in the occupied Arab territories (at an estimated annual cost of $300 million).

Finally, a U.S.-Israel free trade area would severely aggravate the current imbalance in our Middle East policy. It would be viewed by our trading partners in the Arab world as a reward for Israel's invasion of Lebanon; for its establishment, maintainance and expansion of illegal settlements in the West Bank, Gaza, and the Golan Heights; and for rejection of President Reagan's peace initiative.

Congress must also consider the vast market potential of the Arab world. Proponents of a U.S.-Israeli free trade area point to a potential in Israel for U.S. companies of $8 billion (although, as we argue above, it is doubtful that any significant increase in U.S. exports will be absorbed by Israel). Yet, granting the $8 billion figure, *arguendo,* in 1982 the Arab world collectively imported well over *$70 billion* and, in 1983, the United States enjoyed a $4.6 billion trade *surplus* with the Arab world, even though Congress has imposed restrictions (antiboycott regulations, and aspects of the Foreign Corrupt Practices Act) which make it difficult for U.S. companies to export to the Arab world. (Ironically, while it is illegal for American companies to bribe foreign officials for lucrative contracts, a U.S. congresswoman recently learned on a trip to South America that Israel has bribed South American military officials not to purchase arms from the United States, but to buy from Israel instead [see Attachment D]. Nonetheless, the Administration is prepared to offer unprecedented trade concessions to Israel.)

CONCLUSION AND RECOMMENDATIONS

In sum, establishing a free trade area with Israel presents considerable liabilities for certain domestic U.S. industries, while it offers the U.S. economy as a whole no discernable benefits. On the political level, Israeli actions over the past two years, including the invasion of Lebanon and continued rejection of the Reagan peace initiative, make trade concessions to Israel unconscionable. To the extent that trade can be used as leverage to moderate Israeli policies and gain political concessions, the

United States should seek to promote Israeli policies which coincide with U.S. interests and objectives in the *entire* Mid-East region.

[Attachment A]

MIDDLE EAST POLICY AND RESEARCH CENTER, ISSUE ANALYSIS AND BACKGROUND OF ISRAELI ECONOMY

INTRODUCTION

As new Israeli Prime Minister Yitzhak Shamir took office, a major banking crisis focused international attention on the plight of Israel's economy. The crisis, which began in September, had been brewing for months. Bank shares, artificially supported by the big Israeli banks, had become dangerously overpriced in the past year or more, offering real profits of 25 percent or higher to investors eager to beat triple-digit inflation. Hundreds of thousands of Israelis had bought the shares and their holdings amounted to approximately $7.5 billion, an amount equal to one-third of Israel's GNP.

But as rumors mounted that the Israeli shekel would be substantially devalued this fall, some investors began to sell bank shares in order to buy foreign currencies. Soon, the trickle became a flood. More and more shares were dumped on the market, and the banks were exposed. In a scramble to save their stock, the banks borrowed as much as $1 billion from domestic and foreign sources in order to buy up their own shares from the public. But the rush continued, and as a panic mounted, the government agreed to intervene. It closed the Tel Aviv stock exchange and guaranteed the value of the bank shares. It also devalued the shekel by 23 percent and slashed subsidies on food and fuel by as much as 50 percent.

As the dust settled, analysts tried to determine the causes of the crisis and to assign blame. The most vulnerable immediate target was Finance Minister Yoram Aridor, who had presided over three years of triple-digit inflation, a worsening balance-of-payment deficit, and a growing foreign debt that in 1983 reached $21.5 billion, or over $20,000 per Israeli household. On October 13, Aridor, already unpopular, was forced from office after his controversial plan to link Israel's economy to the dollar provoked public outrage.

It was clear to many observers, however, that the banking crisis was not only the result of recent mismanagement, but of chronic economic problems that have plagued Israel for years. Aridor's policies, while indeed questionable, had only exacerbated old maladies. Menachem Begin's Likud coalition had come to power in 1977 promising economic reform to correct problems it blamed on the Labor leaders who had governed Israel for 30 years. Quite apart from government management, however, some of Israel's economic difficulties can be attributed to factors inherent in the geographical, political, social, and ideological character of the Zionist state.

BACKGROUND

Three major factors have shaped the Israeli economy over the years. The first is the hostile political and natural environment in which the new state was planted. The boycott of Israel by neighboring Arab states, a succession of wars, and the scarcity of natural resources in the region, have all left marks on the economy. Israel devotes a disproportionate share of its resources to defense (currently 30 percent of the budget); imports almost all of its fuel, materials for processing, and machinery; and, despite an intensive agricultural development program, lacks the water resources to become self-sufficient in agriculture. To help counter these expensive drawbacks, Israel has relied since its birth on massive infusions of foreign captial, mostly from the United States and Jews around the world. Its dependence on these sources, and its foreign debt, have grown markedly over the years.

The second factor is Israel's Zionism, its state ideology. Zionism promises a home in Palestine for any Jew who wishes to settle there, regardless of the limited resources of the region. While the huge influx of immigrants, many of them highly skilled, helped fuel Israel's boom years, it also saddled the government with an immense burden of social welfare. New immigrants are guaranteed houses and jobs, in effect, a "minimum standard of living," bearing no necessary relation to their productive capacity. In recent years, as productivity in Israel has declined, wages and the standard of living have continued to rise. Even the Likud has felt compelled to "deal kindly with the people" through subsidies and other benefits, despite its commitment to free enterprise. Another economic burden arising from Israel's Zionist ideology is the government's financial support of the network of settlements in the occupied territories. While work on the settlements has slackened, and the burden has eased, these settlements were a drain on Israeli resources throughout the 1960s and 70s.

While the first two factors are more or less "deterministic"—inherent in Israel's location and the nature of Zionism—the third factor is more unpredictable: the effect on Israel of international economic and political events, such as world inflations and recessions, and the 1973 oil embargo.

The interplay of these three factors is largely responsible for one of the most important characteristics of the Israeli economy: the extremely large role played by the government in economic affairs. Israel has sometimes been described as a "quasi-socialist" state as a result, but the reality is more complex. The Israeli economy can best be described as a "mixed" economy, in which three major sectors—public, collective, and private—interact in a complicated and sometimes uneasy relationship.

The major sectors

Public sector: The government

The Israeli government plays a role in economic affairs considerably larger than the role of the government of any industrialized Western country. The roots of this role go back to 1948, when a severe economic crisis followed on the heels of independence. The government was faced with thousands of new immigrants, an Arab boycott, and severe shortages of housing and food. It intervened forcefully, with measures that included rationing, exchange controls, and complete protection of manufacturing. These measures were later relaxed, but the government continued to shape the economy both directly and indirectly. It is involved in raising resources through taxation, borrowing and fund-raising, and in allocating them through investment, financing, and ownership. The government is responsible for half of all industrial investments, through loans from the development budget, and is the largest single employer. In the 1960s, total public sector expenditure ranged from 40 to 50 percent of the GNP; in 1982, government expenditures equaled 90 percent of the GNP. The government affects pricing by means of subsidies; the capital market by supporting interest rates and directing credit; and land allocation. It determines fiscal and monetary policies, exercises controls over imports and foreign exchange, and provides social services.

It is notable that in spite of the far-reaching involvement of the state in Israel's society and economy, almost all efforts to carry out comprehensive economic planning have failed. In addition, despite all its power and influence, the Israeli government has never uses its role to concentrate industrial development in state enterprises. Apart from its ownership of key projects in infrastructure, defense industry, utilities, fuels, and the development of natural resources, the government prefers to encourage private investment. To this end, it contributes equity capital toward large projects with other investors, sometimes selling its shares after a project is established to raise funds for new investments. It provides credits, grants, and tax benefits for desired investments, as well as assistance in foreign marketing. This package of incentives cost the government 20 percent of the value of industrial investments in the 1970s, contributing to the high level of government spending.

Collective sector: The Histadrut

Some of the basic institutions of the Israeli economy are rooted in the early effort of the late 19th and early 20th centuries to colonize Palestine. Certain of these, such as the Histadrut (Labor Federation) and the Jewish National Fund, were originally created to carry out limited economic functions related to settlement in Palestine and have retained some of these functions today. The Histadrut, which has grown to have the most important economic function of the so-called National Institutions, was founded in 1920 as the General Federalization of Hebrew Workers in Eretz Israel. It represents a merger of two rival labor Zionist parties and became the "administrative backbone" of the "yishuv", or settlement process. The Histadrut directed colonization, economic production, and labor employment on the early "kibbutzim" (collective agricultural settlements), and took responsibility for defense through its military arm, the Haganah. At independence, the Histadrut remained structurally and financially autonomous, but it is closely associated with the government in its economic activities and is described in some Israeli statistical presentations as a "quasi-govermental" sector.

Today, the Histadrut is a major factor in the Israeli economy. Over 50 percent of the population belongs to the Histadrut, either through labor union affiliation (the organization periodically negotiates basis agreements on wages and working conditions with management in different fields), or in order to participate in the Histadrut's insurance coverage. Israel has no national insurance plan. Ironically, the labor activities of the Histadrut have become only a small part of its activities, handled by one of numerous specialized departments. The Histadrut also owns a network of businesses and banks, (in all, over 2,000 enterprises), including holding corporations, industrial concerns, and agro-industries, covering one-third of the net product of agriculture, construction, transportation, and communications; one-fifth of mining and manufacturing; one-sixth of trade and services; and one-tenth of banking, finance, and real estate. The Histadrut is the largest employer, after the government, and it contributes over 20 percent of the GNP.

Despite the Histadrut's "collective" ownership, its structures and organizations are those of Western capitalism, and it maintains close ties with many multinational corporate and financial interests, through numerous subsidiaries and associated companies abroad.

Private sector

Private enterprise in Israel accounts for 60 percent of the net domestic product and is concentrated in banking, finance, real estate, trade, and services, where it represents 90 percent of the total. Private owners represent 73.5 percent of the NDP of mining and manufacturing; 67 percent of agriculture; and more than 50 percent of construction. Private owners operate 96 percent of the industrial establishments of Israel and employ 70 percent of the industrial workers.

Other economic areas

Kibbutzim and Moshavim

Despite the ideological importance assigned to kibbutzim and moshavim (collective villages) in Israel, they have never been economically dominant and are now less of a factor in the Israeli economy than ever before. Begun in the 19th century as a socialist agricultural enterprise, with capital, land, stock, and buildings held in common, the kubbutz has come to rely more and more on industrial enterprises to survive as Israeli agriculture has become dominated by privately owned agri-businesses. More than 40 percent of kibbutz income comes from industrial production, while approximately 35 percent of kibbutz income is invested in industry. Kibbutzim contribute only about 12 percent of Israel's GNP, mostly from industrial enterprises. Contrary to stereotype, 50 to 60 percent of kibbutz labor is hired, mostly from among Arabs or Sephardic (Arab) Jews, and these laborers are concentrated in industrial production. Hired workers do not share in the benefits of collectivization; the kibbutz has become a management, rather than a labor cooperative. In the 1970s, only about 3 to 4 percent of the Israeli population lived on kibbutzim, while 4 to 5 percent lived on moshavim. Ninety-seven percent of the kibbutzim and moshavim are affiliated with the Histadrut Worker's Company, the labor department of the Histadrut.

Agriculture

Agriculture has occupied a position of ideological eminence in Israel ever since Theodore Herzl, Zionism's "founding father," advocated a Jewish "return to the land" as a crucial factor in founding a viable Jewish state. But agriculture has never attained a great economic importance. In 1982, it accounted for less than 7 percent of Israel's GNP. Agriculture grew rapidly in the 1950s as a result of the expansion of cultivated lands as well as better irrigation methods, but by the mid-1950s all fertile lands were under cultivation, and planners realized that Israel could not hope to become completely self-sufficient in agriculture. Production has since shifted from food products for domestic consumption to high value products for export, especially nuts, flowers, and citrus crops. Despite self-sufficiency in most fruits and vegetables, poultry, eggs, and diary products. Israel must import many farm products, including meat, vegetable oil, and grain.

Since 1960, agriculture has also become less significant as a source of employment for Israelis. The total number of agricultural workers has declined to less than 10 percent of the work force and the number of hired laborers, especially Arabs from the occupied territories, has increased.

Industry

Industry has grown faster than any other major sector of the Israeli economy, and since the mid-1970s has contributed about 33 percent of the GNP and 87 percent or more of commodity exports. In the early years of the state, food processing, textiles, and building materials were the most important industrial products. In the 1960s, the diamond industry grew dramatically. From exports worth $5 million in 1952, the industry today accounts for more than half the world trade in cut and polished diamonds. Diamonds are Israel's largest export, and the diamond industry employs over 25,000 people. However, the foreign exchange earning potential of the diamond industry is limited by the high costs of importing rough stones (mostly from South Africa), so that only one-fifth of the value of diamond exports represents foreign exchange earnings.

Structurally, Israeli industry is a mixture of some large plants and a large number of small plants and shops. Seventy percent of establishments have fewer than 10 workers, and account for only about 12 percent of industrial employment. Seven percent of the plants employ 68 percent of industrial workers. The large plants are responsible for over 80 percent of industrial exports, while the numerous small plants tend to produce for local consumption. Industry is mostly privately owned; public enterprises are concentrated in defense, petrochemicals, oil refining, shipyards, and mining; and Histadrut affiliated plants are mostly in basic metals, minerals, wood, machinery, and quarrying.

Foreign Trade

Israel has always had a large trade deficit as a result of limited natural resources, the need for industrial development, and a populace accustomed to Western standards of living. Because of foreign exchange pressures, however, the government has long sought to develop exports, especially after efforts to channel the demand for consumer goods toward import substitution in the 1950's only increased Israel's dependence on imports.

Between 1950 and 1976, exports grew at an average rate of 18 percent a year, and accelerated to 21 percent between 1970 and 1976, when they reached $2.4 billion. However, exports have never approached the volume of imports. In 1983, for example, the difference between imports and exports is expected to exceed $2.6 billion.

Since the 1970s, emphasis has been given to science-based industries such as chemicals, metal products, electronic and military equipment, and diamonds; industrial rather than agricultural products now dominate the export sector. The major foreign markets are the Common Market countries of Europe, with Israel concluded an affiliate membership agreement in 1975, North and South America, and Asia.

Tourism has also been an important earner of foreign exchange, and efforts have been made to imporve resort facilities. However, the volume of tourists has varied greatly because of the "security situation" in the region.

HISTORY OF GOVERNMENT POLICIES

Although the Israeli economy has developed significantly since indepedence, from "producing olive oil and flour to jet fighters and missiles," certain of its characteristic features, such as its import surplus and dependence on foreign capital, have never changed. Various governments over the years have addressed in different ways the problems these features pose, with varying degrees of success.

1948 to 1967

After three years of economnic crisis following the 1948 war, Israel experienced one the of the highest growth rates in the world. From 1950 to 1967, the economy expanded at an average rate of 10 percent a year, comparable only to Japan, South Korea, and Taiwan. Per capita annual growth in this era averaged only 3.4 percent, however, because of the rapid population increase. From 1948 to 1951 alone, almost 700,000 immigrants entered Israel. Their number dropped to 54,000 between 1952 and 1954, but rose again to 165,000 between 1954 and 1957.

The ratio of the trade deficit to the GNP declined steadily, from 26 percent in 1952 to 14 percent in 1966, mostly because of the rapid increase in exports, led by citrus, processed foods, and textiles. Despite the dependence of these exports on imports of materials for processing, some experts believe that only a moderate tax increase accompanied by a decrease in government spending would have eliminated the balance-of-payments deficit by the early 1970s.

One important factor in Israel's rapid growth was the influx of skilled labor. But the main factor was, of course, the massive volume of foreign aid that reached Isreal from various sources, enabling it to cover its import surplus and build up its foreign currency reserves. From 1950 to 1973, Israel received $18 billion from U.S. grants and loans, world Jewry, bond sales, and German war reparations. The war reparations included shipments of trains, buses, and other infrastructure materials, as well as cash payments to the Israeli government and to individual Israelis. Israel also benefited from foreign investments, which averaged $100 million a year from 1950 to 1967. Direct investments and licensing agreements also gave Israeli entrepreneurs access to advanced Western technology, greatly improving the efficiency of Israeli enterprises. From 1960 to 1967, the net capital inflow from these sources averaged $561 million annually, more than offsetting a $459 million annual import surplus.

But even this prosperity was accompanied by hazards. Foreign indebtedness increased dramatically from about $410 million in 1954 to approximately $1.6 billion in 1967. An indexing system, adopted in 1952, linked wage increases and other benefits to the cost of living and contributed to an average annual inflation rate of 5.4 percent between 1955 and 1966, considerably higher than the 1.8 percent annual rate in the United States during the same period.

In 1962, the government took steps to force Israeli production to compete internationally. It switched from a multiple to a unified exchange rate, devalued the Israeli pound, and reduced tariffs and administrative restrictions. In 1964, faced with continued rapid growth, inflation, a large import surplus, and vulnerable foreign currency reserves, the government chose a policy of "mitun," or restraint, reducing state-financed investment, raising taxes and trying to slow consumption.

By 1966, it had become clear that development plans aimed at import substitution were unrealistic, and the Israeli government enacted a comprehensive reform program aimed at shifting labor and capital to export-oriented industries. This was followed in November 1967 by a substantial devaluation of the pound.

These measures backfired, since they came at a time when immigration and foreign investment were decreasing. While 228,046 immigrants had arrived between 1961 and 1964, only 81,337 came between 1965 and 1968. Foreign investment decreased from $163 million in 1963 to $83 million in 1966. In addition, several large development projects were completed in these years. The net result was recession. Unemployment rose to 10 percent; investments, especially in housing and public services, declined; and Israel's GNP growth rate fell to 1 percent in 1966, increasing only to 2.2 percent in 1967. Significantly, however, both public and private consumption continued to grow in these years.

1967 to 1973

The six-day war breathed new life into Israel's sluggish economy, as the government laid out hugh expenditures to cover the costs of the war. Imports of military hardware increased dramatically. Partly because of France's embargo of military sales to Israel, facilities begun originally for repair and maintenance of foreign weapons were converted to adapt existing weapons and even to produce new ones. By 1978, Israeli-made weapons had become a major foreign exchange earner. Military expenditures as percentage of GNP jumped from 11 percent in 1966 to 24.1 percent in 1972. Defense, dominated by government-owned plants under the Ministry of Defense, led an impresssive growth in the manufacturing sector, and helped give the economy a growth rate of nearly 10.5 percent between 1967 and 1973. The government also stimulated the growth of science-based industries by providing low interest credit, tax incentives, tariff protection, export premiums, export insurance, and marketing assistance. Investments tripled, and there was a raise in both public and private spending.

But these years also mark the beginning of the inflationary spiral in Israel. In 1971, inflation was 12 percent; it was 13 percent in 1972, and 20 percent in 1973. Increased consumption, devaluation, rising fuel prices, inflation in the West, and Israel's monetary policies, which had failed to neutralize the large inflow of foreign funds, all contributed to the problem.

The rising inflation rate had political side effects, since it hit some Israelis harder than others. "Social justice" began to emerge as a political issue, as Jewish immigrants from Arab countries found themselves falling behind European Jews. Income inequality, which statistically resembled the disparity in the industrialized economies of the West, was actually worse than it appeared, as a result of tax evasion and fringe benefits in certain sectors.

In response to political pressure, the government adopted new tax laws to help the poor and raised welfare and subsidies, policies which increased the budget deficit and encouraged consumption. By 1973, the high inflation and growing balance of payments deficit were compounded by a slowing of the GNP growth rate to 3 percent.

1973 to 1977

The 1973 war, in which Israel lost many expensive weapons, accelerated the nation's economic plight. A vast rearmament program required vast expenditures abroad, not only to replace lost weapons, but also to compete in the accelerating arms race with the Arab states. These expenditures were financed mostly by a huge increase in U.S. aid, which reached an average of $1.5 billion a year between 1973 and 1978. In 1972, U.S. aid had been approximately $475 million, 88 percent of that in loans. As a result of the new aid levels and new expenditures, the balance of payments deficit rose from an average of $0.5 billion to $1 billion a year to $3.4 billion a year after 1973. The size of the army doubled, and the productive sector suffered from this loss of manpower. To make matters worse, 1974 and 1975 were years of global inflation. Since Israel imports almost all of its raw materials, price rises forced it to deplete its foreign currency reserves.

The Labor government, concerned over the increasing foreign debt and balance of payments deficit, decided to reduce consumption through tax increases, cuts in subsidies, and devaluation of the pound. These measures slowed the economy. Imports declined and the balance of payments deficit improved, decreasing from a peak of $4 billion in 1975 to $3.3 billion in 1976.

But, as in 1966 to 1967, this slowing severely affected investments, while failing to cut consumption or improve productivity, especially in the swollen public sector. Gross domestic capital formation declined sharply, and the GNP growth rate fell to 2 percent in 1975.

Part of the problem lay with the ruling coalition, dominated by worker's parties and heavily influenced by the Histadrut. These groups refused to accept measures that would impose hardship on workers; that is: any cuts in subsidies, public services or other benefits. The economic role of government had become extremely strong under Labor. By 1976, the public sector's share of fixed gross investments was 40 percent. The ratio of government expenditure to the GNP was 97 percent, and taxes equal 53 percent of the GNP. Sixty percent of the Israeli labor force was in service industries, largely because of governmental and quasi-governmental economic activities, as well as because of the trade and transportation network associated with high levels of imports. The government had gradually assumed and immense role in the collection and allocation of Israeli resources, but because of ideological and political factors, was unable to cut either public or private consumption. It avoided severe crisis only by the use of short-term financing, and by depleting foreign currency reserves. The 1975–76 experience was a bad portent, and contributed to the defeat of Labor in the 1977 elections.

In 1976, the situation improved somewhat, as the government imposed a value-added tax and devalued the currency. The West had partially recovered from its economic problems, and the United States was able to help Israel by almost doubling the amount of grants as opposed to loans in its total aid package, from $642 million in 1975 to $1.2 billion in 1976.

1977 to 1982

In 1977, the Likud coalition of Menachem Begin came to power in Israel promising a "new economic policy" to attract foreign investment and make Israeli industry more competitive abroad. While the basic goals of the Likud resembled those of the defeated Laborites—full employment coupled with economic growth—the Likud was oriented toward free enterprise rather than socialism as the basis of economic policy. Begin promised to free the market from some of the controls imposed by Labor and to let market forces assume a larger role in the allocation of resources.

But the Likud was also a coalition government, more fragile than past Labor coalitions. The two main factions within the Likud were the Herut and the Liberals. The Herut depended for support largely on low-income people and vowed to maintain full employment and social welfare programs. The Liberals, may of whom were independent businessmen, sought economic opportunity in laissez-faire economic policies. Inevitable, these two groups soon found themselves split over economic goals.

The first steps taken by the Likud involved liberalizing the financial sector. The government floated the pound on the foreign exchange market, eliminated currency controls, slashed export subsidies, and reduced subsidies on basic commodities. The impact of the currency devaluation was softened by the complex indexing system, which by 1977 included wages, pensions, welfare benefits, and bank accounts, all indexed at 80 to 85 percent of the inflation rate. Any gap was made up in basic wage increases negotiated by the powerful Histadrut, and by investments, which many Israelis began to use to beat inflation.

The government failed to accompany its monetary policies by a reduction in government spending. Begin refused to endorse cuts in defense or social services, which made up well over half the budget. Annual repayments on the foreign debt were also fixed, leaving little room for cuts. The Treasury was forced by the budget deficit to print more currency, and the money supply increased by 39 percent in 1977 and by 45 percent in 1978. The Central Bank also borrowed large sums of money on the Eurodollar market, further increasing the supply. A vast monetary expansion occurred in Israel. Liquidity increased as more Israelis invested in indexed assets such as the "Patan" dollar-linked accounts. Public expenditures and public employment rose, and real wages kept ahead of inflation, which moved into triple digits.

Exports did rise 25 percent, partly because of stepped-up arms sales to countries like Chile, Nicaragua, and South Africa. Nonmilitary export commodities stagnated. Foreign investments also increased by more than 50 percent, to $165 million, but this was still less than in the years before 1973. Much of the economic growth that did occur paid for more imports. The balance of payments deficit rose from $2.6 billion in 1977 to $3.25 billion in 1978, an amount equal to one-quarter of the GNP. High inflation discouraged investments in productive sectors. Instead, hundreds of thousands of Israelis began to speculate, especially in real estate and the stock market.

Before 1977, bank shares had fluctuated freely with the market. In that year, Bank Hapoalim began "regulating" its share prices, and soon other major banks followed suit. Soon, over 700,000 Israelis, one in every three adults, attracted by the real profits in shares, invested in the market. The scene was being set for the crisis of 1983.

By 1979, the situation was so bad that the government was forced to ban, and then to ration, capital imports. Food and fuel prices were allowed to rise to near market levels, a step that enabled the government to keep the budget at the same level, in real terms, in 1979. Proposals were made to cut ministry budgets, curtail the cost of living increases, and limit subsidized credits to industry and agriculture, but the need for real austerity measures was lost on a public cushioned from the ipact of inflation. Some analysts also blame the Likud for inexperience and/or inopportunism. Begin, in particular, was said to know less than the man in the street about economic affairs and only wanted somehow to "keep everyone happy."

It is important in this context to note that U.S. aid and other capital imports were instrumental in maintaining this situation. As a leading Israeli banker commented in 1979, "The public here doesn't pay the price of inflation. The United States and the Jewish people around the world do that." In effect, U.S. generosity enabled Begin's politically divided government to follow an inconsistent and destructive economic policy, "Milton without the Friedman," according to Israeli economist Meir Merhane.

In 1980, Yigal Hurvitz replaced Simha Erlich as finance minister. In the same year, Israel was hit by the "second oil shock," requiring the government to allocate more resources to pay for fuel, and to cut subsidies and devaluate the currency more frequently. These policies reduced the balance of payments deficit, and consumption actually decreased in Israel for the first time in years. Hurvitz only lasted a year in office, however, and was replaced just before the 1981 election campaign by Yoram Aridor. Under his direction, the Israeli economy deteriorated even more rapidly.

In many Western countries, there is a "political business cycle." In an election year, voters are wooed by loose credit terms which tend to disappear after the election as the government restores tighter monetary controls. In Israel, the Likud abandoned its two-year austerity plan during the 1981 campaign, partly in order to lure disaffected young and Sephardi voters. The government increased subsidies, cut taxes on luxuries, printed more money, and encouraged the banks to support share prices. Israelis went on a spending spree just as they entered the war in Lebanon. The artificial prosperity helped return the Likud to power, but it also paved the way for disaster.

After the election, the government declined to impose tighter monetary controls. Aridor blamed inflation not on the influx of capital and monetary expansion resulting from high government expenditures, but on psychological factors related to the public's "expectations" and "perceptions." Thus, rather than fighting inflation and deficits through the classical solution of budget cuts, devaluation at a higher rate than inflation, and wage controls, Aridor's "correct economy" "massaged" inflation by artificially slowing devaluation to 5 percent a month, holding down prices of subsidized goods by increasing subsidies, and holding down interest rates. Since imports are a major part of the consumer price index in Israel, the rise in subsidies pushed up the government's deficit, while curbs on exchange rates reduced the international competitiveness of Israeli products. These interactions caused an import surge. The civilian import surplus, which had been $2.2 billion in 1981, jumped to $4 billion in 1982, while inflation reached 130 percent.

The atmosphere was rife with speculation. The stock market rose 60 percent in 1980, 25 percent in 1981, and 70 percent in 1982. With share profits so high, Israelis rushed to play the stock market. Investment in government index-linked bonds slackened, as did interest in regular savings schemes, which were limited by taxes and other restrictions. Spending on financial assets grew by 31 percent in real terms in 1982, while spending on physical assets increased by less than 6 percent. The GNP stagnated. It was the first failure of the economy to grow since 1966.

1982

Despite all the bad news in 1982, 1983 shaped up as the worst year, economically speaking, in Israel's past three decades. In January, the stock market fell drastically in one week, after the government announced minor changes in the rules governing mutual funds. Only bank shares survived undamaged. Israel's budget deficit rose to $11 billion. The foreign debt grew $550 million during the first half of 1983, following a record rise in 1982, reaching $21.45 billion, over $5,000 per capita. Israel's balance-of-payments deficit, which had reached $4.7 billion in 1982, was expected to reach $5.5 billion in 1983, despite a marked decrease in oil pirces and an increase in military exports. Part of the rise grew from the artificial support of the Israeli shekel. Foreign currency reserves dropped $230 million between July and September, and another $98 million in September. The government printed the equivalent of $1 billion in the first five months of FY-1983, which added to a money supply already bloated by loans from world capital markets. This fueled inflation, which was expected to reach 150 percent. The shekel became more and more obviously overpriced, and the government was forced to increase the rate of devaluation to 7.1 percent in July and to 7.5 percent in August.

Exports also declined in 1983 to $3.1 billion, while imports increased to $5.6 billion. The GNP remained stagnant for the second year in a row at approximately $20 billion. Almost unbelievably, the public prospered. Average gross wages increased 6.6 percent in real terms over 1982, and private consumption continued to increase. But, as the summer drew to a close, the public became uneasy about the economic situation. One sign of this came after the August devaluation, when investors failed to transfer foreign currency bought before the devaluation back into shekels, obviously fearing another major devaluation.

Aridor's aides had warned him during the summer that without strong measures the economy would face a major crisis within a year. Aridor responded with proposals for a $1 million budget cut, just before Begin resigned in September. The ensuring political realignments distracted Israelis from economic affairs and paralyzed the government. The Central Bank and the Treasury conspired to maintain public calm, issuing the periodic statements that, despite the statistics, Israel's economy was healthy and would soon recover from passing problems.

Public anxiety grew stronger in September. Aridor proposed that Israel accept less military assistance from the United States in return for a larger proportion of grants, angering Defense Minister Moshe Arens and drawing public attention to Israel's desperate need for cash. In the same month, the government released Israel's annual economic report which contained more grim figures, fueling fears that Israel's creditors had begun to lose confidence in Israel's economic viability, and that Israel might face problems obtaining more credit in future years. The specter of repayment problems, further depletion of foreign currency reserves, and drastic austerity measures pushed Israelis to sell their most prized investments—bank shares—in exchange for safer foreign currencies. As Shamir pulled his new government together, fear turned into panic. The proposed austerity measures seemed suddenly not only necessarily but imminent. Thousands of shares were dumped on the market, as much as $11 to $30 million a day in the first days of October. The bubble had finally burst.

CONCLUSION

In the wake of the October financial crisis, many analysts agreed on the immediate remedy for Israel's economic malaise: the government must attack the balance of payments defict, cut private consumption and the budget, and impose tighter monetary controls. The new finance minister, Yigal Cohen-Orgad, has promised to undertake reforms aimed at these goals and to try to stimulate economic growth. Reportedly, Cohen-Orgad's economic philosophy rests on the belief that Israel must drastically reduce its dependence on foreign aid. As a member of the Knesset under Aridor, he outspokenly called for realistic exchange rates for the shekel and criticized the lag of devaluation rates behind inflation. He opposed "unnecessary" social welfare programs, and voted against providing free public high school education to all Israelis.

Cohen-Orgad is known to favor economic advance through government promotion of science-based industry, and has said he intends to concentrate more on increasing exports rather than reducing exports, although he believes both are necessary. He feels Israel would do well to imitate the policies of South Korea, which has overcome similar economic problems by concentrating its resources in "high-tech" industries like electronics, medical equipment, and bio-technology.

But the new finance minister faces formidable political and economic hurdles. Like his predecessors in the Likud, he joins a fragmented political coalition in which the finance minister lacks political clout. Under Labor, the post of finance minister went to a power broker from the majority party. Under Begin, it developed into a minority party position of "asymmetric" power—to spend but not to cut.

Already, Shamir's government faces internal and external political pressure not to touch social welfare programs. The Histadrut staged a nationwide two-hour strike in October to demonstrate popular opposition to proposed budget cuts; and Tami, a minority party within the Likud, has threatened to withdraw from, and thus destroy the coalition if welfare benefits are touched. The only effective counterweapon to worker-party pressure, according to some analyses, is the threat of unemployment, which might backfire on a government with such a slim majority, in a state where full employment is an accepted national goal of any government and is expected by the Israeli public.

Another ominous sign, in some eyes, is the speed with which the Shamir cabinet moved to bail out investors caught in the recent banking crisis. The government agreed to shoulder the burden of any major losses, raising doubts about its determination to carry through any true austerity program.

Without strong action, however, observers predict the crisis will worsen. The recent measures saved the capital markets from collapse, but they have not ameliorated the chronic problems of the productive sector. Unless the wage indexing system is modified, the recent devaluation will worsen inflation, and the gap between the foreign currency earnings of industrial exports and local costs of production will remain. Indeed, in the month after the crisis, according to some reports, inflation reached a level equivalent to 900 percent a year.

Worse, the current crisis could affect the amount of credit at the disposal of businesses and consumers, causing a chain reaction: reduced demand for finished products and raw materials, layoffs, and rising unemployment.

Despite the prevailing gloom, the Israeli government and the banks believe Israeli will recover from this crisis. They point to the fact that Israel's credit image has not been damaged in the West. U.S. reaction to the proposed reforms has been very positive, a fact of extreme importance to Israel's ability to raise credit. Not only does the U.S. aid program provide one-quarter of Israel's annual budget, but many commercial banks, which tender short/term loans to Israel, take their cue from Washington. Significantly, U.S. economic support of Israel has been unwavering in recent months. In early November, Congress voted to grant Israel $550 million to develop its Lavi fighter plane, which is expected to beef up Israel's arms exports in the future. There has also been a tentative agreement with the U.S. Office of Management and Budget to provide all of U.S. military aid to Israel (approximately $1.275 billion) in grant form.

But any improvement in Israel's economy, based mainly on improved terms of foreign aid, raises a contradiction that has plagued Israel since its birth: economic growth has always occurred at the expense of economic independence. This sober truth would remain even if Israel's "security situation," long the scapegoat of its economic problems, were completely transformed. Even if a comprehensive peace settlement disarmed the Middle East tomorrow, and Israel's army were disbanded, the nation would still owe an average of $1.4 billion a year in interest and principal payments on outstanding loans for the next 15 years. The roots of the problem lie not only in the policy responses of different governments, but in historical factors which have shaped the Israeli economy since its inception. In this light, the current crisis appears part of much longer and more intracable problems.

ATTACHMENT B

CAMDEN COURIER-POST DECEMBER 20,1983

AS I SEE IT

U.S. is helping Israel compete against American firms

By ROBERT HAZO
Special to the Courier-Post

Increasing strategic collaboration between the United States and Israel is threatening to "Americanize" the Arab-Israeli conflict and draw the United States into a calamitous military entanglement in the Middle East that is not in its interests. Ominous steps toward expanding that collaboration were announced by President Reagan during the recent visit to Washington of Israeli Prime Minister Yitzhak Shamir. But the expansion of political and military ties between the United States and Israel is being accompanied by burgeoning American economic commitments to Israel as well.

Over the past ten years alone, Israel has received about $22 billion in U.S. aid in the form of grants and long term, low-interest loans. During that period, there has been a trend towards increasing total annual aid to Israel and improving the already generous terms under which that aid is extended. In fiscal year 1984, Israel will receive $2.61 billion in total aid, two-thirds of which, or $1.76 billion, is to be given as grants which do not have to be paid back. Even though no other country is the recipient of such large amounts of annual aid at such generous terms, Israel is asking that all of its future aid be extended in the form of grants.

Indeed, Israel has paid back little of the U.S. aid it received in the past. More than $25 billion in aid has been given to Israel since 1948, much of it in the form of outright grants. Of the aid extended as loans, the terms of repayment are such that the United States can recover less than 20 percent of the original loans in real dollars.

PERHAPS EVEN more serious is the move by Congress last month to allow $550 million in military aid to subsidize research and development of a new Israeli jet fighter called the "Lavi". Development and production costs for the Lavi program may eventually reach as high as $6 billion, most, if not all of it, to be paid by the U.S. taxpayer. In addition, the Lavi will be sold by Israel on the world market in direct competition with U.S.-made aircraft.

Israel's ability to compete against American firms was enhanced by a congressional decision to allow Israel to use $250 million of its Lavi aid to buy military hardware and services from Israeli defense industries, rather than American ones.

Using a U.S. Commerce Department formula which estimates that for every $1 billion in American exports some 24,000 jobs are created, the $250 million in aid Israel will be spending in its own defense industries will cost 6,000 Americans their jobs.

THE THREAT to American employment will be compounded when the first 300 Lavi aircraft, rather than American-built aircraft such as the F-16, F-18, or the F-20, are absorbed into the Israreli air force at a cost of more than $3 billion. Using the Commerce Department formula, this would translate into an additional 72,000 lost American jobs. Additional unemployment would result from sales of the Lavi to third countries.

American taxpayers are thus being committed by their government to subsidize their own future unemployment. And this appears to be only the beginning. President Reagan, who has now consented to this congressional concession, appears ready to increase the amount of aid to be devoted to the Lavi program in the future.

THE PRESIDENT has also agreed to resume deliveries of U.S.-made cluster bomb weapons to Israel, despite charges that Israel used the bombs in Lebanon in both 1978 and 1982 in violation of the U.S. Arms Export Council Act and specific Israeli assurances regarding their use.

Finally, President Reagan has indicated that the United States is willing to negotiate an accord on duty-free trade between the United States and Israel. Such an accord would help to stimulate Israeli export industries and increase sales of Israeli goods to the United States, thereby adding to the already burgeoning deficits in our overall balance of payments.

In an era when domestic spending in the United States is being strictly limited or drastically curtailed, the enormous economic benefits given to Israel are a source of serious concern and controversy. The American taxpayer cannot be asked to continue to subsidize a nation of 4 million people with unlimited amounts of direct aid and economic concessions, particularly when by doing so American jobs are lost and American exports reduced.

The writer is policy research director for the National Association of Arab Americans.

ATTACHMENT C

United States of America

Congressional Record

PROCEEDINGS AND DEBATES OF THE 98th CONGRESS, FIRST SESSION

Vol. 129 WASHINGTON, THURSDAY, OCTOBER 27, 1983 No. 143

ISRAEL BUYS SOUTH AFRICAN COAL WHILE U.S. COALFIELD UNEMPLOYMENT GROWS

HON. NICK JOE RAHALL II

OF WEST VIRGINIA

IN THE HOUSE OF REPRESENTATIVES

Thursday, October 27, 1983

● Mr. RAHALL. Mr. Speaker, on a number of occasions I have openly criticized the Japanese for dramatically reducing their purchases of U.S. coal while increasing their purchases from other exporting nations.

I make these criticisms because of the large trade imbalance between the United States and Japan, which is continuing to grow, and due to the fact that rather than buy from an ally, the Japanese are now investing in coal-related facilities in countries such as the Soviet Union and China.

I firmly believe that a certain degree of reciprocity must be maintained between the United States and its trading partners, especially when those trading partners benefit greatly from their relationship with this Nation.

I make no country exempt, and for this reason must extend my criticism to Israel.

When the Israelis look for coal, they do not look to the United States—the largest and most stable source of coal in the world. Rather, the Israelis go to South Africa and purchase coal produced by slave labor from an apartheid government.

Mr. Speaker, Israel is the beneficiary of approximately one-third of the U.S. foreign-aid package receiving many billions of dollars in grants and loans from our Government. In effect, U.S. citizens and businesses are paying taxes which support Israel's military and economy. Yet, those taxpayers in southern West Virginia and throughout the Appalachian coalfields are suffering from the worst coal slump in decades today. There is massive unemployment and misery in the hills and hollows of Appalachia with about 32 percent of the coal labor work force now on the unemployment rolls.

In 1982, Israel purchased 700,000 tons of coal from South Africa, yet bought only 96,495 tons from the United States. This trend continues in 1983. Recently, the Israeli Electric Corp. took delivery of South African coal from the 160,000-ton coal-carrier *Hadera*.

I would submit that South Africa has done very little for Israel. Meanwhile, U.S. servicemen have died in Lebanon due to circumstances created as a result of the Israeli invasion of that country last year. Furthermore, it is expected that the U.S.-aid package to Israel in 1984 will be increased in excess of the $2.5 billion 1983 level of support.

So I would suggest, Mr. Speaker, that Israel consider these issues while it buys coal from South Africa and make a determination of what South Africa has done for Israel and what the United States has done for Israel. The choice should be clear.●

ATTACHMENT D

THE ROCKFORD REGISTER STAR THURSDAY, AUGUST 18, 1983 PAGE= 1A

Martin says Israel blackballing U.S. firms

By Kurt Peters
The Register Star

Some foreign countries that receive U.S. aid are selling arms to South American countries and bribing military leaders in those countries to prevent them from doing business with the United States, U.S. Rep. Lynn Martin, R-Ill., charged Wednesday.

Martin, who recently returned from a nine-day tour of three South American countries, spoke at a press conference in her Rockford office.

"Some of the other countries to which we give aid sell our arms to military officials and bribe them not to do business with the United States," Martin said.

She singled out Israel, which she said has been selling American fighter planes to Ecuador.

"There's no question in anybody's mind that money passed under the table," she said.

She said the U.S. should warn Israel and other countries that engage in such practices that this country no longer will tolerate such transactions.

Lynn Martin

Martin traveled to Brazil, Peru and Ecuador with Rep. Jim Jones, D-Oklahoma, chairman of the House Budget Committee; Rep. Sam Gibbons, D-Florida, chairman of the House Ways and Means Committee Subcommittee on Trade; and Sen. Lawton Chiles, D-Florida, ranking Democrat on the Senate Budget Committee.

The purpose of the trip, she said, was to determine whether the money the U.S. sends to South America through the Agency for International Development does any good.

Martin said she came back from South America with mixed opinions on the effectiveness of USAID money, but convinced that all money the U.S. sends abroad should have strings attached.

One of those strings should be that no country that receives aid can place an embargo on imports from the United States.

Another string should be that companies that receive aid make efforts to cut their military budgets.

U.S. money, Martin said, "should not underwrite military spending in South American countries."

There's no reason, Martin said, that South American countries shouldn't curtail their military spending to pay for some of their own social programs.

Furthermore, Martin said, each project for which the USAID money pays should bear a plaque saying the project was paid for with money from the U.S. and the recipient country.

Money from the Agency for International Development is matched by money from the country receiving the U.S. funds. It goes to small businesses, schools and other small projects.

Although South American countries are having economic problems, Martin said she feels they are solvable and that the U.S. should make all attempts to foster good relations with those countries.

"A healthy economy is in our own best interest down there, not just because of revolution, but because they buy," she said.

"In 30 to 50 years, they'll be a greater trading partner with us than Europe," Martin said.

Chairman **Gibbons**. I thank you, and before I leave, I respect what you have to say. I would like to continue the discussion with you, when we both have more time.

In looking at other examples of free trade areas, I am particularly impressed with the one in Singapore.

Singapore has no trade barriers in any way, except against alcoholic beverages. They have no back country like a Hong Kong does to rely upon.

They are almost an isolated island in and of themselves, and they are very much as the Israelis find themselves. Yet, Singapore, being a bombed-out, depressed area after World War II, is probably one of the startling examples of a free, competitive enterprise system.

Three million people have created a jewel out of a jungle, and have created a cultural system out of a slum. They have done it all by just competing. They will compete with anybody.

They are now passing minimum wage legislation in order to drive out low-wage industries there because they have such a limited amount of land space.

They are now trying to drive out the sweat-type jobs, and it has all been done because the Singapore people and their Government were willing to compete. I think that perhaps the Israelis are following that same line.

Like you, I condemn their subsidies, but we have adequate laws against subsidies if people will but use them.

We are strengthening those laws against subsidies, so while I respect what you have to say, I have to disagree with the conclusions that you have there.

I have to excuse myself and turn it over to Mr. Frenzel. I have got 2 minutes to run awhile in.

Mr. **Frenzel**. Thank you very much for your testimony, Mr. Sadd.

Mr. **Downey**. Thank you, Mr. Sadd.

The committee will next hear from the U.S. Bromine Alliance, Kenneth Karmel, and Dead Sea Bromine Co., Ltd.

STATEMENT OF KENNETH E. KARMEL, GENERAL MANAGER, BROMINE CHEMICALS, ETHYL CORP., REPRESENTING THE U.S. BROMINE ALLIANCE

Mr. **Karmel**. Thank you very much.

I am Kenneth Karmel, representing the U.S. Bromine Alliance here today. I think from prior testimony you are aware that bromine compounds are very sensitive to this industry. I don't propose to read my testimony but just to make some major points.

I would like to say that the U.S. Bromine Alliance, Mr. Frenzel, particularly, is not opposed to the free trade area. We think we are practical people, we recognize that in any legislation it is hard to create the perfect law and particularly in legislation this broad and sweeping, there are bound to be inequities that ought to be addressed.

Obviously we feel that bromine compounds is an inequity that must be addressed. The points I would make are four in number: first, that this is really a one-way street. There is not a market for bromine compounds in Israel. Israel is an exporter. They are a manufacturer and exporter of bromine compounds and one of the largest in the world. The real markets outside the United States are in Europe and Japan. The Israelis already enjoy 62 percent of those markets. They are dominant outside the United States.

I can assure you that if we as U.S. producers did not have to face tariff barriers in Europe or in Japan, if we were lowering all tariff barriers we would not be here today. Let's have at it.

But the fact is the Israelis export to Europe duty-free and export to Japan duty-free. They now enjoy 62 percent of those markets and propose to export to the United States.

We submit this is a rather unfair situation. Dead Sea Bromine is potent in international bromine. They have 62 percent of the market. They have announced they will increase exports to $250 million. U.S. exports are only $75 to $100 million in the bromine industry. Where is it going to go?

The third point I would make with you is that Dead Sea Bromine is a government-owned, government-sponsored, government-subsidized company. This is not exactly head for head competition. I likened it to a slam dunk contest in which we send our chaps out there to go as high in the air as they can and put that ball in the 10 foot high loop and the others come out and go on trampolines, and we say "no fair."

We don't follow the same rules, we don't play by the same rules.

Fourth, we have been severely impacted by Government regulation already. Most important is the removal of ethylene dibromide, which is the scavenger, was done away with when leaded gasoline consumption was reduced. This once constituted nearly 100 percent of the uses of bromine in the United States, and last year it still represented 45 percent. It is rapidly disappearing.

We recognize it will be gone and the burden on the U.S. bromine interests is to find outlets for the bromine that is being rapidly phased out. In addition we lost the use of ethylene dibromide in agriculture by an EPA ban. We have had a number of body blows in the last couple years. This certainly would be still another body blow. We hope that our case is detailed and overwhelming, and we certainly stand ready to answer questions in support of our position that there ought to be an exception for bromine compounds in this legislation.

Thank you.

[The prepared statement follows:]

STATEMENT OF KENNETH E. KARMEL, GENERAL MANAGER, BROMINE CHEMICALS, ETHYL CORP., ON BEHALF OF THE U.S. BROMINE ALLIANCE

SUMMARY

Position

U.S. Bromine Alliance strongly opposes any type of an agreement with Israel that would reduce the current U.S. duty rates or provide any additional duty-free access for bromine chemical imports from Israel.

Bromine industry background

Four domestic bromine producers today, down from five since 1981. The total estimated domestic market value for all bromine and bromine derivatives consumed in 1983 was about $325 million.

Israel's Dead Sea Bromine Group is the only other major bromine and bromine derivative producer in the Free World.

Domestic industry's bromine production has *declined* over 25% since 1979, from 497 to 370 million pounds in 1983, and is estimated by the U.S. Bureau of Mines that it will decline to 350 million pounds in 1984.

Dead Sea Bromine Group's bromine production has *increased* over 100% since 1978, from 76 to 154 million pounds with other equivalent increases in bromine derivatives. Additional bromine expansion is under construction and other bromine derivative expansions are scheduled between now and 1986. Total bromine and bromine derivative capacity in 1983 was about 320 million pounds.

Dead Sea Bromine Group reports export sales of bromine and bromine derivatives has increased from $29 million in 78/79 to $58 million in 82/83. Even though the export dollar value has doubled, the Alliance submits this value must be understated significantly with their 320 million punds of capacity in place in 1983 unless many of their exports are inter-company transfers to lower value items like elemental bromine to their Netherlands Plant.

Dead Sea Bromine Group continued to steadily increase capacity and market share during the 1980/1983 recessionary period while during this same period the domestic industry declined overall. Furthermore, the Israelis have more expansions in progress for completion over the next two years. The Dead Sea Brome Group has recently announced their five-year plan to *triple* exports to $230 million by 1989. Much of this increase will be destined for the U.S. Market.

Concerns

Increased bromine chemical imports from Israel will displace domestic sales of products in an already declining domestic market. It is estimated the proposed FTA would allow Israel to increase market share in U.S. to about 20% by 1990.

Essentially all the domestic market decline has been the result of governmental regulations beyond the control of the bromine industry.

While the U.S. industry contends with the burdens of various government regulations, the Israeli industry is advantaged by state-ownership, subsidies, grants and regional development assistance.

Domestic industry operated at only 58% of capacity in 1983 based on Bureau of Mines estimates. Industry hopes to offset the further loss of 20–25 million pounds of EDB in 1984 from growth of other products and the continuing recovery in the economy.

Israeli bromine industry is operating at near their current 154 million pounds of bromine capacity, even after doubling capacity over past five years and being in the process of another expansion to be completed in 1984 that will increase their bromine capacity to 220 million pounds. U.S. industry bromine capacity has not changed in this period, and domestic production has dropped significantly.

Decreased employment levels in the domestic industry are certain. An estimated 400 direct jobs will be in jeopardy based on the initial $20 million increase in bromine chemical imports, not to mention the indirect jobs that will be affected.

U.S. industry already disadvantaged in the Free World market for bromine chemicals relative to Israel both in duty treatment and other distinct cost advantages. Israel has duty-free access to all major markets—Europe, Japan, Canada and the U.S. via GSP provisions for many bromine products except for some of the flame retardants.

Dead Sea Bromine Group has all but eliminated the domestic industry's participation in the home market for ammonium bromide and inorganic bromates at the expense of American companies.

The estimated initial $20 million increase in bromine chemical imports from Israel will come primarily from flame retardants (TBBPA, DBDPO, & OBDPO) and clear completion fluid materials (calcium, sodium and zinc bromides). The estimated $50 million share of the 1990 market is about 15% of 1983 market for bromine and bromine derivatives. You could expect the Israelis to feel 25% might be their fair share with them being one of the four major bromine producers in the Free World.

Estimated near-term $20 million increase in bromine chemical imports from Israel will cause severe economic consequences to the industry and particularly to two counties of South Arkansas. Bromine chemical imports from Israel have already increased by 190% over past three years.

Loss of customs and taxation revenue to the U.S.

U.S. bromine industry would have less incentive to provide technical service, researach and development in bromine chemical products.

Unrestrained duty-free access to the Israeli market is of no economic value to the U.S. bromine industry.

STATEMENT

Members of the U.S. Bromine Alliance (Alliance) strongly oppose the possible establishment of any FTA agreement with Israel that would include bromine chemicals. The Alliance considers the bromine chemicals (as further defined in Exhibit C) to be sensitive items of trade that should be excluded from any FTA agreement that may be bilaterally negotiated with Israel. Inclusion of bromine chemicals in the proposed FTA will cause severe adverse economic consequences to the domestic bromine industry. Overall benefits that may be achieved by the proposed FTA in other industry sectors will not offset the expected adverse effects relative to the domestic bromine industry, and unrestrained access to the Israeli market is of little or no economic value to the domestic bromine industry.

Our opposition is not necessarily to the overall concept of a FTA with Israel, but to the specific sector of any bromine chemicals being part of the proposed agreement. This opposition is strictly from a business viewpoint and prompted solely by economic considerations. The situation the U.S. bromine industry finds itself in, relative to Israel, is unique. Israel is the only major bromine chemical producer other than the U.S. industry in the Free World. If the U.S. allows duty-free access to all Israeli bromine chemicals, the domestic bromine industry will suffer another setback, and this access will clearly provide the Israeli bromine industry with a significant unfair competitive advantage.

Elaboration of this point along with background information and supporting data are outlined in this statement. Analysis and evaluation of this statement should clearly establish why the Alliance opposes the inclusion of bromine chemicals in a FTA agreement with Israel or any other possible change that would increase the duty-free access for Israeli bromine chemicals into the U.S. market.

BROMINE INDUSTRY BACKGROUND

Bromine is a chemical element of the halogen family, a corrosive, chemically active, dense liquid. Since it is too reactive to be found as an element in nature, it is chemically produced from salt water sources including seawater, subterranean brines, seawater bitterns and the Dead Sea. Elemental bromine is the basic raw material used in the production of numerous other bromine chemicals used for end-use applications including gasoline additives, agricultural chemicals, flame retardants for plastics and textiles, pharmaceuticals, oil and gas well completion fluids, fire extinguishing agents, water sanitizers, catalysts and other industrial chemical intermediates. The U.S. industry (using subterranean brines) and the Israeli industry (using seawater bitterns) are the two major bromine producing industries in the free world.

According to the latest U.S. Bureau of Mines reports dated December 30, 1983 and May 16, 1984, the domestic applications using elemental bromine were estimated for 1983 to be:

[Amount in percent]

Application:	*Bromine used*
Ethylene dibromide (EDB) for gasoline additives	45
Various brominated compounds for flame retardants	21
Calcium, sodium and zinc bromide for oil & gas well completion fluids	15
Methyl bromide for soil and space fumigation	8
Various bromine compounds for other agricultural and industrial chemicals	11

The free world bromine industry is estimated to have produced 650 million pounds of bromine in 1983. Of this total, U.S. manufacturers (identified in Exhibit A, page 1) produced 370 million pounds and the Dead Sea Bromine Group of Israel produced 154 million pounds. The Israeli bromine industry is described in more detail on page 2 of Exhibit A and in Exhibit G. U.S. and Israeli production together represent about 81 percent of the free world production of bromine. In 1983, it is estimated that Israel supplied about 62 percent of the free world merchant market for bromine and bromine compounds outside the U.S. A further breakdown of the 1983 estimated world elemental bromine production and the free world consumption of bromine and bromine compounds is outlined in Exhibit B.

Annual domestic production of elemental bromine at the estimated 1983 level of 370 million pounds translates into about $118 million market value using an estimated 1983 average selling price of 32 cents per pound. Most elemental bromine, however, is used to produce upgraded bromine chemicals and compounds with average selling prices in a broad range from 25 cents per pound to over $1.50 per pound.

It is estimated the total domestic market value for all elemental bromine and bromine compounds consumed in 1983 was in the range of $325 million.

Domestic bromine production is highly capital intensive. In addition to the typical plant facilities, domestic producers must invest millions of dollars in brine wells and equipment. Average costs associated with drilling and equipping one brine well in South Arkansas is about $1 million, a cost the Israeli bromine industry does not have with the Dead Sea as their source of brine. The total investments on a historical cost basis for the domestic bromine industry, including plants, property and brine well system, is estimated to exceed $300 million or about the equivalent to the 1983 market value of the consumed bromine products.

SPECIAL CONCERNS OF U.S. BROMINE PRODUCERS

U.S. Government actions over the past decade, particularly since 1976, has caused a direct and major impact on the U.S. bromine industry. The EPA regulations calling for the phasedown of lead-in-gasoline caused a major reduction in the demand for ethylene dibromine (EDB), a co-additive used with lead alkyls in the production of gasoline additives. Since 1976, the EDB demand for use in gasoline additives is down 50 percent. This tranlates to about 150 million pounds of EDB or in excess of $45 million in lost sales of EDB for gasoline additives. Historical U.S. bromine and EDB production data reflecting this significant reduction is outlined in Exhibit E.

In addition to the reduced EDB demand for gasoline additives, U.S. government actions in late 1983 have, in effect banned the use of EDB as soil fumigants. These new regulations will result in an immediate decrease in EDB demand for these agricultural uses of another 20–25 million pounds or $6–7.5 million in 1984, and annually thereafter. The significantly reduced need for EDB in gasoline additives, the proposed total ban of lead in gasoline in the House Bill H.R. 5314 and Senate Bill S. 2609, the proposed further phasedown of lead in gasoline by EPA, and the suspension of EDB being used as soil fumigants, is essentially eliminating two major applications for EDB. The other major use for bromine chemicals are in flame retardants and completion fluids used in the drilling of oil and gas wells. The U.S. bromine industry is dependent upon these market applications to help offset the significant declines in EDB demand that have been caused by factors outside any control of the industry.

Another continuing concern of the domestic industry is the duty-free access the Israelis already have under the Generalized System of Preferences (GSP). The import data reflected on Exhibit C clearly indicates that flame retardant chemicals, completion fluid materials and methyl bromine are all growing import items even without GSP benefits in the case of some of the flame retardants like TBBPA, OBDPO and DBDPO. Assurance of duty-free access under a FTA agreement or any other arrangement will open the U.S. market for these products in particular. Products the U.S. industry is counting on for growth area to offset severe reductions in the future EDB demand.

Other governmental related concerns and burdens of the U.S. bromine industry that are not factors or cost considerations to the Israeli bromine industry include:

(1) Compliance with Toxic Substance Act;

(2) Compliance with ever-tightening pollution control regulations;

(3) Elimination of DISC tax benefits for U.S. exports;

(4) Superfund taxation;

(5) Regulations on methyl bromine, vinyl bromine and DBCP; and

(6) Significant capital investments have been made to meet stringent exposure regulations on EDB applicable to the manufacturing locations.

In addition to all of these factors, the U.S. bromine industry is faced with increasing Israeli imports of bromine chemicals into U.S. markets. Imports that have increased from $3.3 million in 1980 to $9.7 million in 1983. Reference the import statistics indicated on Exhibit C. On the export side, the domestic industry is competing with Israeli imports in Europe, Japan and other world markets as significant cost disadvantages, including duty-free entry, while the U.S. exports to those markets are subject to duties averaging over 10 percent. A description of some other cost advantages the Israelis have relative to the domestic industry are outlined in Exhibit G.

The U.S. bromine industry operated at less than 60 percent of capacity in 1983 and further EDB reductions in 1984 will not be offset by growth in flame retardant and completion fluid demands. The Israeli bromine production capacity had doubled in the past five years and their capacity utilization in 1983 was about 90 percent. They are expecting their bromine capacity will increase to over 176 million pounds in the next two years with equivalent increases in bromine derivatives. The Israeli bromine industry is the only major producer of bromine chemicals in the free world. As already indicated, they have over 60 percent of the free world merchant market demand for bromine chemicals outside the U.S., and in 1983 represented about 25 percent of the free world production of bromine chemicals.

DISTINCT ADVANTAGES OF THE ISRAELI BROMINE INDUSTRY

The increasing Israeli production capacity for bromine chemicals, the duty-free markets already available to them, (including current GSP benefits) and some of the additional cost burdens the U.S. bromine industry must compete against (all previously outlined in the preceding section about U.S. concerns) represnt just some of the adverse factors the U.S. bromine industry faces relative to the Israelis. Some other distinct advantages the Israelis have over its U.S. competitors include:

(1) Cheaper raw material source. Reference the description of the Israeli bromine production process outlined in Exhibit G;

(2) 100 percent Israeli government ownership;

(3) Government assistance through tax rebates, grants, preferential financing terms, regional development aid and other forms of assistance more specifically decribed in Exhibit F;

(4) Partial reliance on research and development efforts as well as investments of the U.S. bromine industry in new product research .and applications particularly in the flame retardant and well completion fluids product areas. This allows the Israeli to penetrate the U.S. market on a price basis without regard to having to recover any prior investments in research and development costs;

(5) Political and monetary considerations sometimes overriding profit incentives; and

(6) Use of government owned shipping lines for transportation of bromine compounds to their major world markets that results in the Israelis having lower freight costs than their U.S. competitors who have to pay conference freight rates.

The state-owned aspects of the Israeli bromine industry are extremely significant advantages. A May 24, 1984 article in the Wall Street Journal (Exhibit I) summarizes these points quite well. We urge careful consideration of these excerpts from that article:

"Governments place growth above profits."

"State-owned enterprises often are competing unfairly with U.S. industries."

"Many of the state concerns perform poorly in a commercial sense."

"A state-owned corporation does not have to be efficient or profitable."

"Expansion isn't necessarily for the purpose of making a profit; its greater goals may be to capture strategic markets and acquire hard currency."

"Some experts call for stiffening existing tariffs against all imports."

"A variety of means will have to be used, used as a selective enforcement of trade laws to permit the U.S. to set up protective duties and raising tariffs against goods and services produced by state-owned companies."

"Widespread state-ownership inhibits the free market and free international trade; it is a threat not only to free trade but also to U.S. capitalism."

The Alliance submits that most, if not all of these excerpts, by two prominent members of the Hoover Institute, are very applicable to the Israeli bromine industry. They present clearly the very grave concern that the U.S. bromine industry has been continually conveying about the Israeli bromine industry.

SUMMARY OF ECONOMIC CONSEQUENCES AND REASONS FOR OPPOSITION

If the Israeli bromine industry gains unrestricted duty-free access to the U.S. market, it is anticipated the domestic bromine industry will be severely affected by substantial increases of imports from Israeli. It is estimated the import levels indicated in Exhibit C would increase from $9.7 million in 1983 to more than $30 million by 1985, and to over $50 million by 1990, given the Dead Sea Bromine Group's historical exprort growth pattern and based on their recently announced five-year plan to triple their exports to $230 million by 1989.

While Israeli imports increase, certain U.S. markets are decreasing. The estimated use of EDB for gasoline additives has decreased from 65 percent to around 40 percent in 1983 over the past six years and this downward trend will clearly continue. The only major use for EDB (20-25 million pounds per year) is in soil and space fumigation. This use also has been banned by the government in late 1983. These actions alone will cause significant decreases in bromine production needs in 1984 and the future.

The other major uses for brominated compounds are in flame retardants and for completion fluids. The U.S. industry is primarily depending upon market growth in these areas to offset the declines in EDB. If the growth in areas other than EDB is taken by increasing imports from Israeli, then the entire U.S. bromine industry will be severely affected.

The Dead Sea Bromine Group began aggressive moves to penetrate world markets for bromine, brominated compounds and potash in the mid-1970's. Since then, they have added substantial production facilities for these products and continue to plan for more. During 1983, they announced expansion plans to increase their bromine compounds output to 200 million pounds before the end of 1984 and the completion of an additional 1 million-pound-per-year sodium bromate and potassium bromate electrolysis plant at Ramat Hovav, Israel. Some further Israeli announcements during May, 1984 indicate the recently completed octabromodiphenyl oxide plant is just the second in a series of expansions to be completed in the flame retardant area over the next year. These expansions, in addition to the new calcium bromide process reported in Chemical Week, May 2, 1984, that is also expected to result in a large-scale facility by 1986, are further indicators of how aggressive the Israeli bromine industry continues to be inspite of the overall declines in the U.S. industry's production level.

It is also important to note their aggressive position in the world potash market. Potash facilities and production are relevant in analyzing the bromine industry because bromine is a by-product of the potash recovery process used by the Dead Sea Works, Ltd., a sister company of Dead Sea Bromine. Both of these companies are subsidiaries of the state-owned company named Israel Chemicals. Of interest is the fact that Israeli potash production and exports increase while U.S. potash producers are shutting down operations and both U.S. and Canadian potash producers are indicating some major concerns over their continuing opportunities to compete for the U.S. potash demand relative to the Israelis. Indeed, during early 1984 a petition was filed with the USITC and USDOC by American potash producers alleging that companies in Israel and other foreign countries have dumped and subsidized imports of potash into the U.S. market. The USITC has recently announced preliminary findings that confirm antidumping duties should be imposed.

American companies are already at a severe disadvantage in sales of brominated compounds relative to Israel in the European and Japanese markets which are the largest markets other than the U.S. Israeli bromine chemicals enjoy duty-free access to the Japanese and Canadian markets, but U.S. imports face 10–15 percent duty rates. Imports of bromine chemicals from the U.S. into the EC are subject to duties that average about 10 percent, whereas the same imports from Israel have been duty-free since 1977. The EC-Israeli arrangement, in effect, allows Israel to market their products within the EC as though it were their domestic market. Prior to the EC–Israel FTA in 1977, American companies had most of the market for tetrabromobisphenol A (TBBPA) in the European Community. TBBPA is the world's largest volume flame retardant. When duty-Free access became available to the Israelis, the dominant market share held by American companies began to decrease. Today, the Israelis have in excess of 50 percent of the EC market for TBBPA and most other bromine chemicals. This experience in the EC can easily be translated into what is likely to happen in the U.S. market with duty-free access for all bromine chemicals being available to Israel.

The Israelis presently have duty-free access to about 40 percent of the world market for bromine and bromine derivatives. The elimination of U.S. duties on all these products will increase the Israelis unrestricted duty-free access to about 90 percent of all world markets and just facilitate their recently announced plans to triple exports to $230 million by 1989. In contrast, U.S. companies will not have duty-free access to any world market except the domestic market. Having duty-free access to Israel's bromine chemicals market clearly does not provide any export opportunities to the U.S. bromine industry.

The U.S. bromine industry will be severely affected by a U.S.-Israel FTA that would include bromine chemicals or any other U.S. duty-free arrangement for Israeli bromine chemical imports. Bromine capacity in the U.S. is presently about 650 million pounds and over 550 million pounds of this capacity is located in two countries in the southern part of the State of Arkansas. The Arkansas counties of Union and Columbia are relatively rural areas which primarily depend upon employment in timber, oil and gas, bromine and light industries. Employment levels in all of these areas except bromine have decreased over the past several years, so the bromine industry is critical to the economic well-being of Union and Columbia countries and the companies in this industry. Substantial increases in Israeli bromine products will have severe adverse effects. Reference Exhibit H for the Resolution of the South Arkansas Development Council.

The bromine industry currently provides more than 4,000 direct and indirect jobs in the state of Arkansas. Sales lost to Israeli imports will clearly cause reduced production levels and result in fewer jobs being available. In addition to the adverse employment impact, the companies with investments in plants and facilities will experience adverse economic effects as well. The total estimated investments by the four companies having bromine facilities in south Arkansas exceed $300 million.

It is difficult to quantify the total adverse effects of a U.S.-Israel FTA that would cover the bromine industry, but it is clear that all the factors related to the estimated near-term $20 million increase in Israeli imports under the proposed FTA would translate into hundreds of jobs and millions of dollars being in jeopardy. To the extent that duty-free bromine chemical imports would increase, they would cause an equal loss for the U.S. bromine industry. Congressional representatives of Arkansas, the Arkansas Governor and the Arkansas Industrial Development Commission in previous hearings in the Senate, USITC and USTR, have all provided much greater detail concerning these economic and employment consequences. We can only echo and endorse statements they have given for the record, and would also point to the petition submitted to President Reagan signed by over 5,000 citizens of Arkansas that are very concerned about their jobs and the certain adverse impact on the Arkansas economy from duty-free imports of bromine chemicals from Israel.

The U.S. chemical industry, as an average, has 20 personnel directly employed in production, packaging, transportation, marketing, product and process development, quality control and administration, for each $1 million of sales. The estimated $20 million increase in bromine imports from Israel translates to some 400 direct jobs being in jeopardy. About 250 of these jobs are concentrated in Union and Columbia counties of south Arkansas. In rough terms, for each $1 million of bromine chemical imports that replace equal U.S. sales, the result would be the loss of 20 American jobs, primarily in Arkansas, not to mention the indirect jobs affected. These are estimated to be another 1200–1500 at the $20 million import increase level. In addition to lost jobs, U.S. producers have significant investments in existing production facilities that could be idled to the extent of increased imports. The companies and the American economy would suffer the loss of an economic return on these investments.

Admittedly, the impact of lost employment and the reduction of any economic return on investments in two Arkansas counties may not be statistically significant for the American economy as a whole, but it would be very significant for the concentrated areas affected. Similarly, the initial estimated economic impact on the domestic industry from $20 million increase of bromine chemical imports from Israel may not seem too significant in overall trade with Israel or the U.S. balance of payments, but to the Alliance members it is very serious! Current import levels of $10 million plus an additional $20 million would be about 13 percent of Great Lakes Chemical Corporation's total annual sales and over 50 percent of Ethyl Corporation's bromine chemicals business.

Serious contraction of the domestic bromine chemicals market, caused by increased Israeli imports, will inhibit continuing capital investment that is imperative if an industry is to maintain and enhance high levels of efficiency, growth and technological development. Some growth, in step with the American economy, in existing end-use applications will occur, but not sufficient to maintain the adequate output levels from U.S. producers if additional proposed incentives (unrestrained duty-free access) are given to the Israeli bromine industry.

This will allow them to more actively and, from the perspective of the Alliance, unfairly compete with U.S. producers for the domestic bromine chemicals market. Unrestrained duty-free access, in addition to being a state-owned industry, goes beyond the spirit of a "free trade" proposition! Every displaced pound of a domestically produced bromine chemical with an Israeli import has, and will continue to have, an adverse effect on the U.S. bromine industry.

The Alliance submits that circumstances today are no different than on three earlier occasions when petitions from the Israelis seeking additional GSP benefits for bromine chemicals were denied. The proposed FTA would be an even broader and more permanent arrangement than earlier sought GSP benefits, and will clearly have much more far reaching adverse economic consequences for the U.S. bromine industry. The Alliance respectfully requests that bromine chemicals, as defined in this statement in Exhibit C, be excluded from any bilaterally negotiated Free Trade Agreement with Israel that may be submitted for Congressional action or any other arrangement that would provide for additional duty-free access to Israeli bromine chemical imports.

[Exhibit A]

IDENTIFICATION OF THE U.S. BROMINE INDUSTRY

The U.S. manufacturers and marketers of some or all of the bromine products listed on *Exhibit C* include:

Company location	*Bromine products plant locations*
Great Lakes Chemical Corporation, Highway 52 Northwest, P.O. Box 2200, West Lafayette, IN 47906.	El Dorado, AR.
Ethyl Corporation, 330 South Fourth Street, P.O. Box 2189, Richmond, VA 23217.	Magnolia, AR. Sayreville, NJ.
DOW Chemical, USA, 2020 Dow Center, Midland, MI 48640	Magnolia, AR. Ludington, MI. Midland, MI.
Arkansas Chemicals,[1] Inc., Route 6, Box 98, El Dorado, AR 71730	El Dorado, AR.
Morton-Thiokol, Inc., Ventron Division, 150 Andover Street, Danvers, MA 01923.	Danvers, MA.

[1] Jointly owned by Great Lakes Chemical Corporation and PPG Industries.

The domestic bromine industry is primarily concentrated in the two states of Arkansas and Michigan. Over 85 percent of U.S. produced bromine comes from Union and Columbia counties of Arkansas. Elemental bromine is then used as the primary raw material to produce all other bromine chemicals and brominated compounds.

IDENTIFICATION OF THE ISRAELI BROMINE INDUSTRY

The Israeli manufacturers and marketers of bromine products listed on Exhibit D include:

Members of the Dead Sea Bromine Group

Dead Sea Bromine Company Ltd.,[1] Bromine-Compounds Ltd., Makleff House, P.O. Box 180, Beer-Sheva, Israel 84101.

Eurobrom B.V., P.O. Box 85615, 35 Mauritskade, 2508 CH, The Hague, Holland.

Broomchemie B.V., P.O. Box 318, Frankrijkweg, Zevenaarhaven, Terneuzen, The Netherlands.

Bromine and Chemicals Ltd., 6 Arlington Street, St. James, London SW1A Ire, England.

Bromoken (Far East) Ltd., Dai-Ichi Toei Bldg., 4-2 Muromachi, Nihonbashi, Chuo Ky, Tokyo 103 Japan.

Ameribrom, Inc., 1230 Broadway, New York, NY 10001.

[1] Subsidiary company that is part of the state-owned Israel Chemicals.

The Israeli bromine industry depends upon getting elemental bromine as a byproduct from the potash recovery system used by the Dead Sea Works Ltd, a sister company to Dead Sea Bromine Company Ltd. Reference Exhibit G for a further description of the Israeli bromine production process.

[Exhibit B]

ESTIMATED 1983 ELEMENTAL BROMINE PRODUCTION

	Millions of pounds	Percent of Free World
World total	796	
U.S.S.R.	150	
Free World	646	100
United States	370	57
Israel	154	24

Estimated 1983 consumption of elemental bromine and bromine compounds

	Millions of pounds
U.S. markets	340
Free world, other than United States	310
Free World, other than United States, merchant market, excluding captive use	240

MAJOR SUPPLIERS OF BROMINE AND BROMINE COMPOUNDS TO FILL DEMAND IN THE FREE WORLD OTHER THAN UNITED STATES

Country location of manufacturer	Millions of pounds	Percent of total demand	Percent of merchant market
Israel	149	49	62
United States	50	16	21
United Kingdom (captive use for gasoline additives)	50	16	0
France (⅘ captive use for gasoline additives)	30	10	4
Japan	26	8	11
All other	5	1	2

Source: U.S. Dept. of the Interior Mineral Industry Surveys dated Dec. 30, 1983 and May 16, 1984.

U.S Bromine Industry Sector Defined by TSUSA Item Numbers
Tariff Schedule of the United States Annotated (TSUSA)

EXHIBIT C

Scheduled 1987 MTN Tariff Rate	1984 MTN Tariff Rate	Present TSUSA Item Number	Proposed Harmonized System Number	Description of the Bromine Item(s) Included in Classification	(1) U.S. Imports from Israel (as reported in item number)							
					1980		1981		1982		1983	
					Mlbs	M$	Mlbs	M$	Mlbs	M$	Mlbs	M$
9.1%	14.2%	402.80	2903.69.5000	Pentabromoethylbenzene (CAS #85-22-3) Benzylbromide Bromobenzene, mono Bromo Chlorobenzene (2-Bromoethyl) benzene 1-Bromonaphthalene o-Bromotoluene 1-Bromo-2,4,6-triethylbenzene 2-Bromo-1,3,5-triethylbenzene p-Dibromobenzene p-Bromotoluene (1,2-Dibromoethyl) benzene Hexabromobenzene Pentabromotoluene Tetrabromoxylene	-	-	-	-	-	-	6	25
9.1%	9.1%	402.82	2903.69.500C	Tribromocumene (CAS # - None)								
0.7¢/lb + 19.4%	1.1¢/lb + 19.4%	403.56	2908.10.5000	Tetrabromobisphenol A (CAS #79-94-7)	717	380	2,559	1,372	1,616	870	1,606	883
13.9%	13.5%	403.59 *	2908.XX.XXXX	Other	-	-	-	-	-	-	-	42
20 %	22 %	403.64 *	2909.30.5000	Decabromodiphenyl oxide (CAS #1163-19-5)	-	-	-	-	-	-	26	27
			2909.30.5000	Octabromodiphenyl oxide (CAS #32536-52-0)								
				1,2-Bis-Pentabromophenoxyethane (CAS #61262-53-1)								
13.9%	13.5%	403.66 *	2909.XX.XXXX	Other	-	-	-	-	-	-	-	4
20 %	21.2%	404.36	2917.39.5000	Tetrabromophthalic Anhydride (CAS #632-79-1))	-	-	-	-	-	-	-	-
15 %	17.3%	405.52 *	2925.19.1000	Ethylenebistetrabromophthalimide	-		-	-	-	-	-	-
13.9%	13.5%	407.07 *	2903.59.1500	Dibromoethyldibromocyclohexane (CAS #3322-93-8)	-		-	-	-	-	-	4
2¢/lb	3.1¢/lb	415.05	2801.30.2000	Bromine	-		-	-	-	-	-	-
4.2%	4.9%-G	416.4540	2811.19.5050	Hydrobromic acid	658	181	1,307	320	1,104	326	1,133	322
3.1%	3.4%-G	417.4440	2827.59.0000	Ammonium bromide	282	184	678	436	1,599	989	1,634	962
Free	1.9%-G	418.32	2827.59.0000	Calcium bromide	-	-	-	-	-	-	1,722	900

* - TSUSA Item Numbers for possible imports in these categories were 403.60XX and 408.60 in 1980 and earlier years. Identifiable bromine chemical imports not nearly as easy to determine from public data in these TSUSA Item Numbers.

0428T/MT:4-5-84

U.S Bromine Industry Sector Defined by TSUSA Item Numbers
Tariff Schedule of the United States Annotated (TSUSA)

EXHIBIT C

Scheduled 1987 MTN Tariff Rate	1984 MTN Tariff Rate	Present TSUSA Item Number	Proposed Harmonized System Number	Description of the Bromine Item(s) Included in Classification	(1)U.S. Imports from Israel (as reported in item number) 1980 Mlbs	1980 M$	1981 Mlbs	1981 M$	1982 Mlbs	1982 M$	1983 Mlbs	1983 M$
1.5¢/lb	1.7¢/lb-G	420.02	2827.51.2000	Potassium bromide	460	311	91	63	151	106	293	206
3.1%	3.4%-G	420.3605	2829.90.1000	Potassium bromate	-	-	106	92	189	185	291	265
3¢/lb	4.9¢/lb-G	420.82	2827.51.1000	Sodium bromide	246	159	-	-	516	345	2,481	938
3.7%	4.2%-G	421.6280	2829.90.5000	Sodium bromate	1,061	868	1,008	823	1,353	1,277	3,582	2,634
3.7%	4.2%-G	422.78	2827.59.0000	Zinc bromide	-	-	-	-	-	-	-	-
3.7%	4.2%-G	425.24	2903.59.5000	Ethylenebisbromonorbornane	265	401	176	283	176	258	-	-
4.2%	4.9%	425.9940	2915.90.1500	Monobromoacetic acid			113	119	288	354	346	478
0.7¢/lb + 3.9%	0.8¢/lb + 4.4%	429.28	2903.30.0000	Ethylene dibromide	861	165	644	139	-	-	-	-
3.7%	4.2% G	429.4830	2903.40.0050	Bromotrifluoromethane	-	-	-	-	-	-	-	-
			2903.40.0020	Chlorobromodifluoromethane								
3.7%	4.2%-G	429.4860	2903.30.0000	Methyl bromide	2,111	698	2,126	994	1,615	831	2,948	1,554
			2903.59.5000	Hexabromocyclododecane								
			2903.30.0000	Vinyl bromide								
			"	Methylene dibromide								
			"	Acetylene tetrabromide								
			"	Ethyl bromide								
			"	Bromochloromethane								
			"	Alkyl bromides								
3.7%	4.2% G	429.9590	2905.50.5000	Dibromoneopentyl Glycol	-		-	18	-	13	-	-
3.7% N	4.4%	430.2040	Various	Other	-	-	-	-	-	-	38	39
3.7% N	4.2% G	432.25	Various	Other	-	-	-	-	-	-	256	396
				TOTAL GSP IMPORTS - M$		2,802		3,029		4,330		8,177
				TOTAL DUTIABLE IMPORTS M$		545		1,630		1,224		1,502
				TOTAL IMPORTS M$		3,347		4,659		5,554		9,679
				PERCENT INCREASE OVER 1980				39.2		65.9		189.2

G - Eligible item to receive GSP benefits, i.e. duty free from Israel.
N - But not less than the highest rate applicable to any component material.
(1) - Import data source - FT246/Annual 1980, 1981 & 1982; IM-146/IM-145X, 12 months year-to-date - U.S. Department of Commerce.

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U.S Bromine Industry Sector Defined by TSUSA Item Numbers
Tariff Schedule of the United States Annotated (TSUSA)

EXHIBIT C

(1) U.S. Imports from Israel (as reported in item number)

1984 MTN Tariff Rate	Present TSUSA Item Number	Description of the Bromine Item(s) Included in Classification	January 1984		February 1984		March 1984		April 1984		May 1984		June 1984	
			Mlbs	M$	Mlbs	M$	Mlbs	M$	Mlbs	M$	Mlbs	M$	Mlbs	M$
14.2%	402.80	Pentabromoethylbenzene (CAS #85-22-3) Benzylbromide Bromobenzene, mono Bromo Chlorobenzene (2-Bromoethyl) benzene 1-Bromonaphthalene o-Bromotoluene 1-Bromo-2,4,6-triethylbenzene 2-Bromo-1,3,5-triethylbenzene p-Dibromobenzene p-Bromotoluene (1,2-Dibromoethyl) benzene Hexabromobenzene Pentabromotoluene Tetrabromoxylene												
9.1%	402.82	Tribromocumene (CAS # - None)	-	-	-	-	-	-	-	-				
>1.1¢/lb + 19.4%	403.56	Tetrabromobisphenol A (CAS #79-94-7)	190	107	151	84	34	21	114	64				
13.5%	403.59 *	Other	-	-	-	-	-	-	-	-				
22 %	403.64 *	Decabromodiphenyl oxide (CAS #1163-19-5)	-	-	-	-	34	35	-	-				
		Octabromodiphenyl oxide (CAS #32536-52-0)												
		1,2-Bis-Pentabromophenoxyethane (CAS #61262-53-1)												
13.5%	403.66 *	Other	-	-	-	-	-	-	-	-				
21.2%	404.36	Tetrabromophthalic Anhydride (CAS #632-79-1))	-	-	-	-	-	-	-	-				
17.3%	405.52 *	Ethylenebistetrabromophthalimide	-	-	-	-	-	-	-	-				
13.5%	407.07 *	Dibromoethyldibromocyclohexene (CAS #3322-93-8)	-	-	-	-	-	-	-	-				
3.1¢/lb	415.05	Bromine	-	-	1	3	-	-	-	-				
4.9%-G	416.4540	Hydrobromic acid	200	64	289	103	110	39	176	63				
3.4%-G	417.4440	Ammonium bromide	165	90	369	209	112	64	75	39				
1.9%-G	418.32	Calcium bromide	-	-	78	8	-	-	783	94				

* - TSUSA Item Numbers for possible imports in these categories were 403.60XX and 408.60 in 1980 and earlier years. Identifiable bromine chemical imports not nearly as easy to determine from public data in these TSUSA Item Numbers.

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EXHIBIT C

U.S Bromine Industry Sector Defined by TSUSA Item Numbers
Tariff Schedule of the United States Annotated (TSUSA)

1984 MTN Tariff Rate	Present TSUSA Item Number	Description of the Bromine Item(s) Included in Classification	(1)U.S. Imports from Israel (as reported in item number) January 1984 Mlbs	January 1984 M$	February 1984 Mlbs	February 1984 M$	March 1984 Mlbs	March 1984 M$	April 1984 Mlbs	April 1984 M$	May 1984 Mlbs	May 1984 M$	June 1984 Mlbs	June 1984 M$
1.7¢/lb-G	420.02	Potassium bromide	-	-	-	-	52	37	3	2				
3.4%-G	420.3605	Potassium bromate	..	.	73	65	37	34	-	-				
4.9¢/lb-G	420.82	Sodium bromide	118	82	645	288	64	46	-	-				
4.2%-G	421.6280	Sodium bromate	309	159	332	271	904	501	707	332				
4.2%-G	422.78	Zinc bromide			-	-	-	-	-	-				
4.2%-G	425.24	Ethylenebisbromonorbornane			..	-	-	5	-	-				
4.9%	425.9940	Monobromoacetic acid		-	71	90	-	-	8	7				
0.8¢/lb + 4.4%	429.28	Ethylene dibromide			-	-	-	-	-	-				
4.2% G	429.4830	Bromotrifluoromethane	-	-	..	-	-	-	-	-				
		Chlorobromodifluoromethane												
4.2%-G	429.4860	Methyl bromide	297	170	583	342	563	337	271	144				
		Hexabromocyclododecane												
		Vinyl bromide												
		Methylene dibromide												
		Acetylene tetrabromide												
		Ethyl bromide												
		Bromochloromethane												
		Alkyl bromides												
4.2% G	429.9590	Dibromoneopentyl Glycol	-	-	-	-	-	2	5	26				
4.4%	430.2040	Other	-	-	-	-	-	-	-	-				
4.2% G	432.25	Other	-	-	-	-	40	110	8	23				
		TOTAL GSP IMPORTS - M$		573		1,286		1,175		723				
		TOTAL DUTIABLE IMPORTS - M$		107		177		56		71				
		TOTAL IMPORTS - M$		680		1,463		1,231		794				

G - Eligible item to receive GSP benefits, i.e. duty
N - But not less than the highest rate applicable to
(1) - Import data source - FT246/Annual 1980, 1981 & 1982; IM-146/IM-145X, and IM145Z - U.S. Department of Commerce.

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EXHIBIT U

DEAD SEA BROMINE GROUP

PRIMARY PRODUCTS

The Dead Sea Bromine Group specialises in world-wide shipment of liquid elemental bromine in bulk.

Bromine (bulk or bottled)
Hydrobromic acid (HBr) 48% and 62%
Ethylene dibromide (EDB)

AGRICULTURAL SOIL & SPACE FUMIGANTS

Field-tested compounds and formulations for soil fumigation; resulting in control of annual and perennial weeds, soil nematodes and soil-borne diseases and synergistic effects on certain soil-borne diseases when mixed with chloropicrin. For space fumigation of warehouses, silos, shipholds, poultryhouse litter…for use in greenhouses, pre-plant soil fumigation, before replanting in orchards, citrus groves and vineyards…

Methyl bromide
Methyl bromide/chloropicrin mixtures
EDB (ethylene dibromide)
EDB/chloropicrin mixtures
EDB formulations

SLIMICIDES, BIOCIDES

Used in the paper industry for elimination of slimes, and for water treatment and disinfection of swimming pools.

Elemental bromine for swimming pool disinfection
Monobromoacetic acid (MBAA)
bis-Bromoacetoxy butene (BBAB)
MBAA/butenediol mixtures
MBAA/benzyl alcohol mixtures

INTERMEDIATES

Tetrabromoethane (Acetylene Tetrabromide)
Acetyl bromide
Methylene bromide
1-Bromo-2-chloroethane
1-Bromo-3-chloropropane (Trimethylene chlorobromide)
Chlorobromethane

Alkyl bromides (C_1-C_{18})
Methyl bromide (C_1)
Ethyl bromide (C_2)
N-Propyl bromide (C_3)
Iso-propyl bromide (iso-C_3)
N-Butyl bromide (n-C_4)
Isobutyl bromide (iso-C_4)
Amyl bromide (C_5)
Hexyl bromide (C_6)
Cyclohexyl bromide (C_6)
Heptyl bromide (C_7)
Octyl bromide (C_8)
Decyl bromide (C_{10})
Dodecyl bromide (C_{12})
(Lauryl bromide)
Tetradecyl bromide
(Myristyl bromide) (C_{14})
Hexadecyl bromide (C_{16})
(Cetyl bromide)
Octadecyl bromide (C_{18})
(Stearyl bromide)

α-Bromocarboxylic Acids & Derivatives
Monobromoacetic acid (MBAA)
Bromoacetyl bromide
Monobromoacetic acid esters
α-Bromopropionic acid
α-Bromopropionyl bromide
α-Bromopropionic acid esters
α-Bromobutyric acid
α-Bromobutyryl bromide
α-Bromobutyric acid esters

Benzenoids — Brominated Aromatics
Halobenzenes
Bromophenols
Bromoanilines
Bromoacetophenones
Bromopyridines
Bromothiophenes
Bromonaphthols

INORGANICS

Chemicals for pharmaceuticals, synthetic dyes, photography, baking, brewing, cosmetics and hairdressing, oil-drilling…

Aluminum bromide
Ammonium bromide
Calcium bromide
Potassium bromide
Sodium bromide
Potassium bromate
Sodium bromate

FLAME RETARDANTS

The Dead Sea Bromine Group offers several derivatives of the basic flame retardant products listed, as well as other proprietary materials for:

Thermoplastic Systems — including styrenics, polyolefines, engineering thermoplastics, vinyls, acrylics
Thermosetting Systems — including UPE, phenolic, epoxy, PUR, UF
Textiles, Paper and Wood — including chipboard, hardboard, plywood

A. Reactive Intermediates
Brominated phenols
Dibromo-neopentyl glycol
Tetrabromobisphenol A
Various derivatives

B. Additives
Ammonium bromide
Decabromodiphenyl ether
Dibromo-neopentyl glycol
Tetrabromobisphenol A
Tetrabromoxylene
Various derivatives

In addition to the products listed, new compounds and derivatives are being tested — new applications for bromine being developed.

The Dead Sea Bromine Group offers custom bromination services, including that of flame retardant compounds. Enquiries are invited concerning special requirements in all fields.

[Exhibit E]

U.S. BROMINE AND EDB PRODUCTION HISTORICAL DATA [1]

Year	In millions of pounds		EDB as a percent of bromine production
	Bromine production	EDB production	
1976	460	299	65
1977	434	280	65
1978	447	259	58
1979	497	289	58
1980	378	213	56
1981	377	157	42
1982	401	[2] 180	[2] 45
1983 [3]	370	[2] 171	[2] 45

[1] U.S. Department of the Interior, Bureau of Mines.

[2] Industry sources think these percentages and resultant production quantities are less in both years. Even though they are the percentages used in the Bureau of Mines data, industry estimates for 1983 EDB production are 154 million pounds or about 42 percent.

[3] Preliminary estimate based on nine months 1983 data.

[Exhibit F]

DESCRIPTION OF ISRAELI GOVERNMENT ASSISTANCE THOUGHT TO BE AVAILABLE TO ISRAELI BROMINE INDUSTRY

1. The remission of indirect taxes on exported items. These taxes are refunded either by drawback or rebates.

a. Custom duties—Recovery of import duties from export of goods.

b. Purchase taxes—Rebate of purchase taxes on goods that are converted for export.

c. Compulsory duties—Recovery of these duties which are imposed on imported raw materials which go into making exported products.

d. Rebate of value added taxes are refunded on exported goods.

e. Rebate of property and inventory taxes upon exported goods and equipment used to manufacture exported goods.

f. Travel taxes are rebated for approved exporters.

g. Plus other indirect taxes related to exports.

2. The government of Israel helps to finance transportation costs for materials which move through the Port of Eilat.

3. The Government of Israel provides direct grants to exporters if their expenditures for exports exceed 4% of export income.

4. The Government of Israel provides financing for exporters:

a. Loans to finance imported raw materials.

b. Loans to finance working capital for exported goods.

c. Loans are made from Israeli Government to exporters with invoices used as collateral.

d. Industrial firms which export at least 20% of their output are eligible for favorable credit terms.

e. Foreign currency loans to finance foreign content of export sales, i.e. imported raw materials included in exported material.

5. The Government-owned Foreign Trade Risks Insurance Corporation offers exporters insurance coverage for the risks inherent in foreign trade.

6. The Investment Incentive Program of the Government of Israel:

a. Provides cash grants and low cost loans to approved enterprises.

b. Will pay up to 80% of R&D expenditures for Israeli companies.

c. Will provide grants to approved investors which export.

d. A company approved for investment incentives may be exempt from income taxes for up to 5 years.

7. Training grants to assist in the training of employees.

8. Export promotion subsidies of one-half the promotion costs up to 8 percent of export income.

9. Subsidized ocean freight transportation.

10. Exchange rate insurance program to protect exporters against possible loss of profits resulting from fluctuations in the rate of devaluation of the Israel shekel against leading foreign currencies.

NOTE.—Most of the items listed above have been specifically confirmed by the informal government-to-government discussions that took place during April and May 1984.

[Exhibit G]

DESCRIPTION OF ISRAELI BROMINE PRODUCTION AND COST ADVANTAGES RELATIVE TO U.S. BROMINE INDUSTRY

The Dead Sea Bromine Group has an unlimited supply of bromide-containing brine from the Dead Sea. By-product bitterns from potash manufacturing facilities located on the Dead Sea provide the supply brine for bromine production. Large investments in brine supply and disposal wells and pipelines are not needed for production from the potash operations at the Dead Sea. Production by domestic producers in South Arkansas requires one supply and one disposal well for each 10 million pounds per year of bromine produced. Each supply well requires an investment in excess of $1 million and has an average life of about 10 to 15 years. The investment for each disposal well is less than for supply wells.

The concentration of bromide in the Dead Sea potash-bitterns is about 12,000 ppm, whereas the concentration of bromides in deep supply wells in south Arkansas ranges from 2,000 to 5,000 ppm (maximum). As a result of these concentration differences, the Israelis have an advantage in raw materials, chlorine and utility (electricity) utilizations.

Brines produced in Arkansas require the payment of severance taxes ($2 per 1,000 barrels) and capital equipment is subjected to the payment of property taxes.

Bromine produced in the United States is subject to superfund taxes of $4.45 per ton and is manufactured from chlorine which pays a superfund tax of $2.70 per ton of chlorine. Material produced in Israel and sold in the U.S. does not have to pay these taxes.

Israel's Dead Sea Bromine Group also enjoys the advantage of government ownership and certain other special assistance programs further described in Exhibit F.

[Exhibit H]

SOUTH ARKANSAS DEVELOPMENT COUNCIL RESOLUTION

Be it resolved that the South Arkansas Development Council strongly opposes the removal of import duties on bromine and bromine compounds from Israel into the United States. Removal of these import duties is now threatened by a move to create a Free Trade Area between the United States and Israel.

While it is apparent that there is now only a small portion of total imports from Israel into the United States that are not already duty free (1.0 million dollars of 1.2 million dollars are now exempt), the impact of this small amount on the economy of Arkansas would be devastating. The large natural economic advantages possessed by the state-owned Israel Bromine Industry are further leveraged by various subsidies provided by their government.

Arkansas produces 85 percent of the United States bromine supply. This industry presently provides approximately 1,200 direct and 3,000 indirect jobs in our state.

In the best interests of the citizens in the State of Arkansas and in the United States, we, the South Arkansas Development Council, urge the strongest efforts in retaining the import duties on bromine and bromine compounds.

[Exhibit I]

[From the Wall Street Journal, May 24, 1984]

NATIONALIZATION AS A TRADE CULPRIT

(By L.H. Gann and Peter Duignan)

A little more than 10 years ago, a major study published by the United Nations sounded a world-wide alarm over the growth of multinational corporations. According to the U.N.'s findings, the aggregate of the activities of all multinational corporations then was about $500 billion, around one-fifth of the gross national product of the non-Communist world. The power of these corporations was immense. The "multinationalization" of economic enterprise supposedly marked a new and decisive, perhaps final, chapter in the history of capitalism.

However, powerful as they are, multinational companies are being overshadowed by nationalized enterprises, not only in the Communist world, but also in the West and the Third World. As R. Joseph Monsen and Kenneth D. Walters note in their book "Nationalized Companies" (McGraw-Hill, 1983), state ownership has grown steadily since World War II. Outside the U.S. state corporations own the bulk of the world's oil industry and most of the airlines. And the Western European steel industry is largely government owned—only West Germany has a large private steel industry.

HALF THE INDUSTRIAL SECTOR

Before 1970 there were no manufacturing industries in Western Europe in which state-owned companies held a major share of output. Since that time, state-owned companies have gained a significant share of the market in some of the most important industries: aerospace, steel, aluminum, shipbuilding and auto making. State-owned companies that were nationalized or developed in the 1970s include pharmaceuticals, electronics, computers, office equipment, petrochemicals and telecommunications. State-run concerns also have expanded into the international market and follow a strategy of diversification.

In Western Europe, state-owned companies represent almost half of the industrial sector. For example, in West Germany, supposedly a free-market country, the government has stock in more than 600 companies. And in Portugal, 60% of the industrial sector was nationalized between 1974 and 1983.

State-owned segments of the European economy are beginning to dominate in more and more industries and to expand to new products and markets. In France, for example, President Mitterrand took control of 80% of the country's steel industry in 1982 and purchased five other key industrial groups; state ownership of manufacturing rose from 18% before the nationalization campaign of 1982 to 32% thereafter. (Corresponding figures for metalworking were 13% before and 63% after nationalization; arms manufacturing, 58% before and 75% after; aircraft, 50% before and 84% after; base chemicals, 23% before and 54% after.) In Britain, Margaret Thatcher had promised to roll back the tide of nationalization. She had some success, but by the end of 1983 the majority of state-owned companies still remained under public control and were expanding into new technologies.

This pattern has spread into the Third World, not merely in avowedly Marxist-Leninist countries, but in those that reject Marxism. In Zambia, the government-owned Zambia Industrial & Mining Corp. controls a large variety of subordinate enterprises, from factories to trading corporations and hotels. In South Africa, there are more than 300 parastatals (independent state corporations).

State-owned industries in Western Europe are expanding aggressively, even in Britain. For example, British National Oil Corp. has about $1.4 billion a year for acquisitions or for financing new companies. Recently it acquired Kennecott Corp. and a share of U.S. Steel's coal reserves. State-owned industries appear to be inherently expansionary. As important companies or areas of the economy become ill, governments tend to nationalize them. And governments are drawn into new areas because they place growth above profits and because they have the funds to finance takeovers and to form new companies.

State-owned enterprises often are competing unfairly with U.S. industries. For example, British steel undersold American and Japanese steel products on the West Coast in 1977. The U.K. government was not as concerned about the loss from below-cost sales as much as it was interested in maintaining employment in England's steel towns.

The U.S. International Trade Commission announced in March 1983 that U.S. specialty steel was being hurt by imports from state-owned or state-financed steel facilities in West Germany, France, Sweden and Spain.

More disturbing was Boeing's loss recently of a bid to Airbus Industrie, a consortium of state-owned companies, to build 50 planes in the U.S. for Pacific Southwest Airlines. Airbus in now seen as a real competitor in the U.S. market. State-financed investment in the aerospace industry in Japan and Europe will further threaten U.S. companies. However, many of the state concerns perform poorly in a commercial sense. (The Joint Anglo-French Concorde venture, for instance, produced an imaginative aircraft from the technological standpoint, but the project had scandalous losses.)

A state-owned corporation does not have to be efficient or profitable; it can afford to accumulate losses because it can sell its products below cost, at taxpayers' expense. Moreover, when a nationalized company emphasizes expansion, it isn't necessarily for the purpose of making a profit; its greater goals may be to keep its work forces employed, gain influence within the bureaucratic power structures of its own country, capture strategic markets, acquire hard currency or gain more political clout for its managers.

Of course, it is not only state-owned or partly state-owned industries that benefit from subsidies at the taxpayers' expense. The U.S. has long subsidized its merchant marine, its farmers and its defense industries. But nationalized concerns have the advantage of direct access to the national treasury and can draw on help from other state agencies of banks.

How should the U.S. respond in the future to competition from foreign nationalized companies? Some experts call for stiffening existing tariffs against all imports, for a comprehensive enforcement of U.S. anti-dumping laws or for stricter quotas. Others say a new policy is needed that uses state funds to finance important industries.

A VARIETY OF MEANS

These suggestions have side effects that may harm the U.S. economy as much as benefiting it. Protectionism interferes with foreign trade; a policy of "beggar my neighbor" may end by beggaring all. The "new industrial policy" assumes that planners can pick a winner among many industries competing for state handouts. Unfortunately, planners have not shown much ability in this field; they are more likely to support existing companies with political clout than gamble on a new form of enterprise. How many economists, 40 years ago, would have guessed that the rudimentary computer, designed by British experts to break German codes in World War II, would form a milestone in the creation of a gigantic industry?

This threat to American private industry cannot be met by unilateral commitment to free markets or free trade. A variety of means will have to be used, such as a selective enforcement of trade laws to permit the U.S. to set up protective duties, imposing quotas and raising tariffs against goods and services produced by state-owned companies. A harsher solution would be to shut out or refuse to trade with the socialized economies of Western Europe until they return to freer international trade, and turn instead to the capitalist countries of the Pacific Basin, where free-trade policies allow fairer competition. In any case, new trade relations will have to be worked out. Widespread state ownership inhibits the free market and free international trade; it is a threat not only to free trade but also to U.S. capitalism.

[Exhibit J]

[From Chemical Week, May 2, 1984]

ISRAEL GEARS UP FOR BROMINE EXPORTS

Israel's Dead Sea Bromine, a subsidiary of Israel Chemicals, has announced a five-year plan to triple its bromine exports, to $230 million worth by 1989. Much of the company's hopes are pegged on a new process, developed by Israel Chemicals' research arm, for producing calcium bromine, used in drilling fluids, by extraction from brine rather than by the intermediate steps of making bromine and hydrogen bromine. Dead Sea Bromine currently is building a small unit to demonstrate the process, and officials hope to have a large-scale facility on stream by 1986.

Dead Sea Bromine Co., Ltd. (DSB), represented in North America by its wholly-owned subsidiary, Ameribrom, Inc. of New York City, has announced that it has come on-stream with a dedicated Octabromodiphenyl Oxide plant to serve the world market.

Octabromodiphenyl Oxide, sold by Ameribrom, Inc. and other DSB subsidiaries throughout the world under the trade name FR-1208, is now manufactured in both Holland and Israel by DSB. FR-1208 is used primarily in various styrenics and nylons, as well as being under evaluation in several other polymers.

The new dedicated Octabromodiphenyl Oxide continues Dead Sea Bromine's expansion of its flame retardand product lines to further meet its customer's worldwide demands in flame retardant chemistry.

This expansion by Ameribrom's parent company, DSB, is the second in a series of expansions to be completed within the area of flame retardants in the next year. Dead Sea Bromine Co., Ltd. a basic producer of elemental bromine, has multiple production facilities in Israel and Holland for a wide variety of brominated products.

GOVERNMENT OF ISRAEL INVESTMENT AND EXPORT AUTHORITY,
Midwest Office, March 12, 1984.

Mr. EMERSON KAMPEN,
Great Lake Chemicals Corp.
Lafayette, IN

DEAR MR. KAMPEN: Are you looking for a new source for R&D which is low cost, efficient and timely? Are you searching for new ways to increase profits by expanding into new markets, possibly by joint ventures as well as other methods?

We will demonstrate to you why Israel:

Can cut costs of R&D-production 10%–50%.

Is a high quality source of R&D, Joint Venture and production facilities with financial incentives.

Can offer duty free entrance to the Common Market and the U.S.

Enclosed is a VIP Registration Card to the Design Engineering Show. I have designated a few moments for us to discuss all of these benefits in greater detail at 3 P.M. Tuesday, March 27 at our Booth #3500.

In addition, I would like to invite you to visit Israel and attend ISRATECH '84, May 21–24, 1984, an excellent opportunity to become familiar with Israel's High Tech capacities and explore new business opportunities.

See you at the Design Show.

Cordially,

DENNIS S. GELBART.

DEAD SEA BROMINE STARTS UP NEW PLANT

Dead Sea Bromine Co., represented in North America by its wholly-owned subsidiary, Ameribrom, Inc. of New York City, has announced that it has come on stream with a dedicated octabromdiphenyl oxide plant to serve the world market.

Octabromodiphenyl oxide, sold by Ameribrom, Inc. and with DSB subsidiaries throughout the world under the trade name "FR-1208," is now manufactured in both Holland and Israel by DSB. "FR-1208" is used primarily in various styrenics and nylons, as well as being under evaluation in several other polymers.

The new dedicated octabromodiphenyl oxide plant continues Dead Sea Bromine's expansion of its flame retardant product lines to further meet its customer's worldwide demands in flame retardant chemistry.

This expansion by Ameribrom's parent company, DSB, is the second in a series of expansions to be completed within the area of flame retardants in the next year. Dead Sea Bromine Co., Ltd. a basic producer of elemental bromine, has multiple production facilities in Israel and Holland for a wide variety of brominated products.

Mr. DOWNEY. Thank you, Mr. Karmel.

Mr. Ackerman.

STATEMENT OF EDWARD B. ACKERMAN, COUNSEL, REPRESENTING DEAD SEA BROMINE CO., LTD., BROMINE COMPOUNDS, LTD., AND AMERIBROM, INC., ACCOMPANIED BY NOAH ERLICH, VICE PRESIDENT OF ADMINISTRATION, AMERIBROM, INC.

Mr. ACKERMAN. Thank you, Mr. Chairman.

I am Edward Ackerman, with the firm of Siegel, Mandell & Davidson, P.C., here today on behalf of Dead Sea Bromine Co., Ltd., a producer of bromine located in Be'er Sheva, Israel; Bromine Compunds, Ltd., an Israeli producer of brominated compounds, and Ameribrom, Inc., located in New York City, NY, the exclusive U.S. importer of brominated products from Israel.

The Dead Sea Bromine Group wholly supports the establishment of a U.S.-Israeli Free Trade Area. The inclusion of brominated products in any such agreement is of vital importance to the health of this Israeli industry and is clearly in the best interests of the United States.

Access to a marketplace the size and wealth of the United States is a vital element to the success of any export program and this is particularly true with respect to the brominated products industry. According to a recent report of the U.S. bromine industry, 52 percent of total free world consumption of bromine and brominated products occurs in the United States. Though the Israeli industry is able to compete with U.S. producers in such major markets as Europe and Japan, there can be no compensation for denial of access to the market which accounts for over half of the free world consumption.

At present such denial of access is precisely what is occurring, as Israel's share of the U.S. market for consumption is approximately 2.5 percent. The balance is accounted for almost wholly by three U.S. producers as other exporters of bromine or brominated products to the United States are virtually nonexistent.

There is no basis for the exclusion of such products from within the ambit of contemplated free trade area arrangements. The Israeli industry is not in a position to threaten the pricing structure of the domestic producers. Comparable production costs in Israel and the United States coupled with the high transportation costs to the market where the domestic industry is already based, makes it extremely difficult for the Israeli industry to compete in the United States, tariff rates notwithstanding.

By the same token, American producers have been successfully increasing their penetration of foreign markets even where at a tariff disadvantage.

The domestic industry under the name of the U.S. Bromine Alliance has suggested that if tariffs were eliminated imports will increase by approximately $20 million over the next several years. It also suggests based upon a formula of 20 jobs per $1 million of sales, that this increase will result in declines in employment in the United States.

We believe this is untenable. Great Lakes Chemical Corp., the largest U.S. producer of bromine and brominated derivatives, is dedicated almost exclusively to production of these products. As such, an examination of this company's performance provides excellent insight into the health of the domestic industry. I mention this because we have cited Great Lakes Chemical Corp. more than the other two members of the Alliance for profit and sales performance and such. We do this simply because the other two companies are of a larger size, specific bromine operations are not necessarily available to the public and information about them.

In its 1983 annual report, Great Lakes reported sales and earnings at record highs. They reported an increase in sales of over $53 million from the prior year. Now, this means that in one year one of the three U.S. companies has increased its sales almost three times that of what is predicted as a total increase for Israeli imports.

It goes on. In a recent article in the Wall Street Journal in April of this year, it was reported that Great Lakes' earnings in the first quarter of 1984 rose an additional 50 percent and the president of that company—a statement was attributed to him that Great Lakes expects its sales to reach $1 billion by the year 1990.

This is an increase from 1983 levels of almost $750 million. Based on all this, we have to conclude that any anticipated increase in imports whether it is estimates of the Bromine Alliance or our estimates pale by comparison to projected growth in this industry. If we adopt the formula of the U.S. Bromine Alliance we have to assume that the ranks of the bromine-related labor force in the United States will swell considerably over the next decade.

Figures quoted by the domestic industry relating to capacity utilization and bans on ethylene dibromide are of dubious value. We discuss this in our written submission. I won't go into details at this time but I do want to site a recent statement attributed to the director of brine products at Dow Chemical Corp. He was talking about ethylene bromine consumption, capacity utilization and the bromine supply situation in the United States. He said as follows, "The big three players in the bromine game have been cognizant of eventual phase-out of EDB—hence our heavy effort in flame retardants and clear fluids. And right now bromine is very tight."

In summation, Mr. Chairman, the domestic industry is in an excellent state of economic health. It is well poised to benefit from the anticipated surge in demand for brominated products attributable to current and new applications. The Bromine Alliance has organized itself concededly into an efficient and vocal entity for opposing inclusion of bromine and brominated products in a U.S.-Israeli free trade agreement. But it is difficult to imagine an industry less deserving of special deference in contravention of this important piece of legislation.

We trust this committee will carefully address the information before it in resolving this issue and will conclude that no justification for such an exclusion exists.

I thank you.

[The prepared statement follows:]

Statement of Edward B. Ackerman, Counsel, on Behalf of Dead Sea Bromine Co., Ltd.; Bromine Compounds Ltd.; and Ameribrom, Inc.

My name is Edward Ackerman of the firm of Siegel, Mandell & Davidson, P.C. here today on behalf of Dead Sea Bromine Co., Ltd. a producer of bromine located in Be'er Sheva, Israel, Bromine Compounds, Ltd., an Israeli producer of brominated compounds and Ameribrom, Inc., located in New York City, New York, the exclusive U.S. importer of brominated products from Israel.

The Dead Sea Bromine Group wholly supports the establishment of a U.S.-Israeli Free Trade Area. The inclusion of brominated products in any such agreement is of vital importance to the health of the Israeli industry and is clearly in the best interest of the United States.

Access to a marketplace the size and wealth of the United States is a vital element to the success of any export program and this is particularly true with respect to the brominated products industry. According to a recent report of the United States bromine industry, 52% of total free world consumption of bromine and brominated products occurs in the United States. Though the Israeli industry is able to compete with U.S. producers in such major markets as Europe and Japan, there can be no compensation for denial of access to the market which accounts for over half of the free world consumption. At present such denial of access is precisely what is occurring, as Israel's share of the United States market for consumption is approximately 2½%. The balance is accounted for almost wholly by the United States producers as other exporters of bromine or brominated products to the United States are virtually non-existent.

The elimination of tariff barriers applicable to brominated products will accomplish, in microcosm, all that a U.S./Israeli FTA is designed to achieve. In the production of its brominated compounds, Israel is very much dependent upon foreign sources of non-brominated chemical intermediates and, currently, many such chemical intermediates are sources in the United States. Obviously, as demand for Israeli brominated products increases, the need for chemical intermediates of foreign origin will similarly rise and, as the tariff rates applicable to U.S. products into Israel declines, these chemical intermediates will become more competitive with chemical intermediates from the other important Israeli source, the European market where there is currently a Free Trade Area Agreement.

Additional benefits will accrue to the United States in those instances where a particulary brominated product is being supplied by a single U.S. company and an Israeli presence serves as a second source. Where only one source of supply is available, consumers are vulnerable to pricing caprices and shortages, either as a result of intentional decisions regarding factory product mix or as a result of unanticipated events such as labor strikes, equipment failure, etc.

While the benefits of inclusion of brominated products are clear and significant, no basis for the exclusion of such products from within the ambit of the contemplated U.S./Israeli Free Trade Arrangement as the need of the domestic industry for tariff protection is non-existent.

The Israeli industry is certainly not in a position to threaten the pricing structure of the domestic producers. Although the methods of obtaining elemental bromine in Israel and the United States very considerably, overall costs of production are quite comparable. In Israel, bromine rich brines are obtained at lesser expense than in the United States but the Israeli production method requires significantly greater energy input to separate bromine from brines, and energy is far more costly in Israel. Comparable productions costs, coupled with high transportation costs to the market where the domestic industry is already based makes it extremely difficult for the Israeli industry to compete in the United States, tariff rates notwithstanding.

Evidence of the ability of the domestic industry to compete effectively without the benefits of tariff protection can be seen in international markets. In Japan, the United States has recently gained significant inroads to the detriment of the Israeli industry and one of the three major domestic producers, Great Lakes Chemical Corporation, reported nearly a doubling of its international sales in 1983 from the year before, an increase of approximately 25 million dollars.

The domestic industry under the name, the U.S. Bromine Alliance, suggests that it tariffs are eliminated, imports will increase by approximately 20 million dollars over the next several years. It further suggests that based upon present capacity utilization rates in the domestic industry, and the threat of continued decline in domestic consumption of ethylene dibromide, the industry is in a weakened state and particulary vulnerable to the threat of increased imports.

These charges cannot be sustained. While we believe that a twenty million dollar increase in imports is a grossly overinflated projection, it is, in any event an insignificant figure. There are three U.S. producers which comprise the U.S. Bromine Alliance and account for nearly all domestic production, Great Lakes Chemical Corporation, Ethyl Corporation and Dow Chemical Corporation. Because Ethyl and Dow are major diversified producers, little can be gleaned as to the success of their bromine and bromine derivative operations from an examination of documents available to the public. However, Great Lakes, the largest U.S. producer of bromine and brominated derivatives, is dedicated almost exclusively to the production of these products. Accordingly, an examination of this company's performance as a whole, provides excellent insight into the health of the domestic industry.

In its 1983 annual report, Great Lakes reported sales and earnings at record highs and an *increase* in sales of over 53 million dollars from the prior year. Thus, in a single year, one of the three major domestic producers has increased its bromine revenues to almost three times the total increase it predicts for Israeli imports as a whole.

Prospects for continued growth are equally impressive in the domestic industry. Annexed as Exhibit A is an article published in the Wall Street Journal, the week of April 2nd, which reported that Great Lakes' sales and earnings in the first quarter of 1984 rose in excess of 50% compared to the same period in the prior year. The same article attributes to the president ot that company a statement that its sales will reach one billion dollars by the year 1990, an increase from 1983 levels of almost 750 million dollars (according to the article, such projections are based on anticipated growth in bromine application for fire extinguishing agents, flame retardants, water treatment chemicals and oil as well completion fluids).

Based both on recent growth, and the industry's projection for the future, it is readily apparent that the anticipated increase in import sales pales by comparison, regardless of whether one considers the Israeli industry's estimate of ten million or the Alliance estimate. As such, the Alliance claim that jobs will be lost if the proposed FTA includes bromine is patently ludicrous. Indeed, if we adopt the formula of the U.S. bromine alliance of 20 jobs for every million dollars of sales, it is anticipated that the ranks of the bromine related labor force in the United States will swell considerably over the balance of this decade.

Figures quoted by the domestic industry relating to its capacity utilization are also of dubious value because they are based upon capacity to separate out the bromine from the underground brine deposits in above ground operations ("tower capacity") while U.S. capacity to initially obtain the requisite brines (well capacity) is considerably less. Thus, assuming well capacity to be half of tower capacity, even if the wells are excavating brines at full capacity for an entire year, utilization would be a mere 50% based upon the yardstick which the Alliance is utilizing. While the specific figures are not available to us, it is widely recognized that United States well capacity is significantly below tower capacity.

Similarly, Alliance claims as to the threat posed by continuing declines in ethylene dibromide consumption in the United States are unfounded. In stark contrast to predictions of significant decreases in bromine production needs in 1984 and the future as result of recent agricultural bans, the following statement was attributed to the president of Great Lakes in the trade publication *Chemical Week*. (Feb. 15, 1984)

"EPA's most recent ban * * * will have absolutely no negative impact on the present or future business of our company."

Concededly, the shrinking market for ethylene dibromide as a gasoline additive has negatively impacted the domestic industry. However, the greatest loss has occurred years ago; since then the domestic industry has been quite successful in offsetting the diminishing demand for this product with new bromine applications. While domestic consumptions of ethylene dibromide was approximately 310 million pounds in 1973, it is estimated that domestic consumption in 1983 was less than ¼ of that level, about 70 million pounds, as evidenced by Exhibit B, a copy of letter from the Manager of Regulatory Affairs of Ethyl Corporation dated February 22, 1984, to the Environmental Protection Agency. This being the case, the Alliance members can look forward to increasing profits from rapid growth occurring in other bromine product areas without fear that further EDB cutbacks would erode or offset such growth.

The realistic picture with respect to the phasedown in ethylene dibromide consumptions, capacity utilization and the bromine supply situation in the United States is summed up in a single statement attributable to the director of brine products at Dow Chemical Corporation, as reported in the March 21, 1984 issue of Chemical Week.

"The big three players in the bromine game have been cognizant of eventual phase-out of EDB—hence our heavy effort in flame retardants and clear fluids. And right now bromine is very tight".

In sum, the domestic industry is in an excellent state of economic health and is well poised to benefit from the anticipated surge in demand for brominated products attributable both to current and newly developing applications.

This industry has organized itself into an efficient and vocal entity for opposing the inclusion of bromine and brominated products in a U.S./Israel FTA, but it is difficult to imagine an industry less deserving of special deference in controvention of this important piece of legislation. We trust that this Committee will carefully assess the information before it in resolving this issue and will conclude that no justification for an exclusion exists.

[Exhibit A]

GREAT LAKES CHEMICAL SAYS FIRST QUARTER NET ROSE MORE THAN 50 PERCENT

WEST LAFAYETTE. IND.—Great Lakes Chemical Corp. said first-quarter sales and earnings both rose "in excess of" 50% from the year-earlier period, with all segments showing sharp gains.

For the 1983 first quarter, the maker of specialty chemicals reported earnings of $4.3 million, or 29 cents a share, adjusted for a 2-for-1 stock split paid in October. Revenue was $45.1 million in the 1983 quarter.

Emerson Kampen, president and chief executive officer, said in an interview that the improvement comes from investments made in fire-control products, agricultural specialty chemicals and other new business in the early 1980s. The recession stunted their contributions initially. Mr. Kampen said, but new ventures accounted for more than 40% of Great Lakes Chemical's 1983 sales of $228.2 million. The boost from new businesses will continue in 1984, he said.

Mr. Kampen said he's "pretty ambitious for the year. We probably can't increase sales and earnings by 50%, but we certainly are looking for a record year." Mr. Kampen predicted that through acquisitions and growth of existing businesses Great Lakes Chemical will reach $1 billion in sales by 1990.

Fire-control chemicals will account for a "major" part of that growth, Mr. Kampen said. The company's fire extinguishing materials business, based on its Halon extinguishers, "will grow at about 15% a year." And Great Lakes Chemical is expanding research and manufacturing in flame retardants.

Great Lakes Chemical has settled its antitrust dispute with the Federal Trade Commission over the company's acquisition of Yelsicol Chemical Corp. from Northwest Industries Inc. Mr. Kampen said he isn't concerned that the agreement prohibits the company from acquiring any producer of bromine or flame retardants without FTC approval for 10 years.

Essentially, it's a good agreement for Great Lakes," Mr. Kampen said. "We don't look at this as a major deterrent." He added that had the agreement been in effect for the past 10 years, only the Velsicol acquisition would have required FTC approval.

Because the Environmental Protection Agency banned ethylene dibromide, or EDB, as a soil fumigant, Great Lakes Chemical will lose about $5 million in revenue and about 2.5 cents a share in earnings this year. Mr. Kampen said other areas of the company's agricultural business are doing well. For instance, sales of a chemical intermediate for an insecticide "that is harmless to mammals" have doubled each year since 1981.

Great Lakes Chemical also had improvement in its water-treatment chemicals and oil-industry chemicals businesses, Mr. Kampen said. And he says sales from the company's new electronic chemicals business will approach $1 million in 1984, even though the business is still in the developmental stage.

Capital spending for 1984 will reach about $30 million, Mr. Kampen said, compared with $24 million last year. Research and development spending will remain at about 3.4% of sales, or an esimtated $10 million for 1984, compared with about $8 million in 1983.

[Exhibit B]

Ethyl Corp.,
Technical Center, February 22, 1984.

Mr. R.J. Johnson,
Registration Division, Office of Pesticide Programs,
Washington, DC.

Dear Mr. Johnson: As you discussed with Barbara Little and myself, the annual use figure for ethylene dibromide (EDB in leaded gasoline in the United States by your SRI consultants is incorrect. They gave you a figure of 280 million poinds total annual EDB use. Of that, they say 20 million poinds are used in pesticides, and 260 million pounds are blended into leaded gasoline which is consumed in the United States. These figures have been quoted in several news articles.

As stated above, these figures are incorrect. We produce EDB and know the market for this material. Our figures for the amount of EDB consumed in leaded gasoline in the United States in 1983 is 49.6 million pounds. This figure is bnased on the following breakdown of 1983 EDB domestic use:

Total Anti-Knock Fluid: MM lbs	270
Standard Motor Mix:	
MM lbs	265
Percent EDB	18
MM lbs EDB	47.7
Aviation mix:	
MM lbs	5
Percent EDB	37
MM lbs EDB	1.9

We would like to clear up the discrepancy. If you have any questions about our figures, please call me at 504-389-7668.

Robert L. Smith,
Manager, Regulatory Affairs.

Mr. DOWNEY. Mr. Karmel, I think you stated in your testimony that Israel's Dead Sea Group has distinct cost advantages. Can you be specific on that?

Mr. KARMEL. Yes; the source of the bromine is the Dead Sea which is on the surface of course and has a concentration of about six-tenths of 1 percent bromine. That doesn't sound like much but that is much higher than the concentration of bromine the Americans work on and we must drill almost 2 miles into the Earth to get it.

The process the Israeli's use is one of Dead Sea brines going through a potash plant in the course of which they are concentrated three- or four-fold. So there is a tremendous advantage there.

In addition, there are numerous subsidies that the Department of Commerce and I believe Department of State have defined for us in their visits to Israel.

Mr. DOWNEY. How would you react to Mr. Ackerman's testimony that your industry doesn't appear to be suffering?

Mr. KARMEL. Well, I don't think it is quite fair to relate the whole industry to Great Lakes Chemical Corp. First, Great Lakes Chemical Corp. has done extremely well in the past few years. Nineteen hundred and eighty-three was an up year. The prior few years was flat to down for them. They are also a diversified company. They are no longer strictly in the bromine business by any means. They are in the enzyme business and electrochemicals, the new high-tech areas.

I certainly don't know and I don't think Mr. Ackerman would pretend to know exactly what the sources of the income were. I have seen the same numbers he has, but their earnings are up. That really isn't addressing the point I don't think. I think the equity of the legislation is what is in balance.

The statement that the Israelis would import $20 million additional into the United States has been refuted by Mr. Ackerman, yet the Israelis themselves claim there is a very large market, perhaps half the world's market in the United States and over the next couple years they intend to raise their exports to over $230 million. Where would that go? At least half—over $100 million would come into the United States.

We submitted that the $20 million increase we thought was the very low side and I think the net effect of what we are talking about is a major reduction in the kinds of earnings that Great Lakes is reporting.

Mr. DOWNEY. What about the financial health of the other two large producers?

Mr. KARMEL. Both the Dow Chemical Co. and Ethyl Corp. are healthy companies. Bromine is not a major part of the earnings of those companies.

Mr. DOWNEY. What accounts, in your opinion, for the so-called downward trend in bromine and bromide compound production over the last few years?

Mr. KARMEL. Principally, the phaseout of the tetra ethyl lead in gasoline.

Mr. DOWNEY. Mr. Frenzel.

Mr. FRENZEL. I would like to thank both the witnesses for their testimony.

Mr. Ackerman, Mr. Karmel suggested that the Dead Sea Bromine Co., Ltd., or whoever you are representing, is selling subsidized materials throughout the world. Is there some substance to that allegation?

Mr. **Ackerman**. The Israeli bromine industry is not enjoying any Government assistance that any other industry in Israel would not be entitled to.

Mr. **Frenzel**. That wasn't exactly the question.

Mr. **Ackerman**. Well, there are no additional benefits. However, I do want to add, there was a Treasury Department investigation of subsidies of relatively recent vintage. I believe the final determination was made in 1978 or 1979 and it was determined that any subsidies found to exist were de minimis.

I would like to add one more thing about the subsidy question. It is my understanding that any free trade area arrangement that is ultimately agreed to will either incorporate a subsidies agreement section or Israel will sign the GATT subsidies code. The point being that if there is concern about subsidies, there is nothing special or exclusive to the bromine industry, and there—it is my understanding there will be subsidy safeguards in the agreement.

Mr. **Frenzel**. That is my judgment, too. That is why I wanted to tell Mr. Karmel, but it was also to be a warning to you that if the products that you represent are subject to attack on that basis, this bill notwithstanding or agreements notwithstanding, nobody around here is going to want to let you in the market with that kind of a product other than with some kind of countervailing levy laid upon it.

But I assume then, Mr. Karmel, that you don't agree with his subsidy analysis?

Mr. **Karmel**. Let me state something else. I have said that Dead Sea Bromine Co. is Government owned, Government sponsored, and Government subsidized. I should say that 5 percent of that company is in public hands. It is 95 percent Government owned.

So that means an annual report is published. To my personal recollection an annual report has been published at least from 1969 forward. I think one way or another I have been able to gain access to those annual reports over the 15 years intervening and I have yet to see 1 year in which bromine compounds were profitable. That has not stood in the way of expansion and rapid expansion.

The current expansion plans they have announced would make them the largest producer in the world. They have made that statement, they are going to 200 million pounds a year capacity or a little more and they are going to raise their exports to $230 million.

So despite the lack of apparent profitability they continue to expand very aggressively and I submit to you, gentlemen, it is a different set of rules because in this country under our system, no way could I persuade my board of directors to give me money to expand an unprofitable business and if they did, I think they would fear stockholder suits for having done so.

Mr. **Frenzel**. All the companies in which I invest never make any profit, either. On the other hand, if one can pick up diamonds on the street in Israel and one must dig for them in the United

States, presumably there is a comparative advantage which, of course, any free-trade arrangement would tend to favor.

In any case, we are grateful to both of you and perhaps we will visit your enterprise, Mr. Ackerman.

Mr. DOWNEY. Would you care to respond to Mr. Karmel's point about the fact that the company has not been profitable yet is expanding over the years?

Mr. ACKERMAN. I thank you for that opportunity.

Bromine and the minerals of the Dead Sea are—are probably Israel's only important natural resource. That resource will not be easily abandoned. But nonetheless, the dictates of profit and loss are far more significant a factor in Dead Sea Bromine's operations than Mr. Karmel would have us believe.

Many brominated products manufactured in Israel and marketed elsewhere are not marketed in the United States because it cannot occur on a profitable basis. Elemental bromine itself is not marketed in the United States from Israel because this cannot occur on a profitable basis and the profit motive and profit conduct and behavior are very much inherent in the operations of the Israeli industry.

Mr. DOWNEY. Let me ask you both if you agree on a couple things; Mr. Karmel, what would you say the Israeli's share of our market is now? Do you have any sense of that?

Mr. KARMEL. It would, for example, depend on the item. Where GSP has been in effect and where there has been little or no duty, the bromates and ammonium bromide are two that would come to mind. The last U.S. producer gave up last year and the Israelis have that market totally now.

There are no U.S. bromate producers any longer. The same is pretty much true of bromide. I would say they have virtually 100 percent of that market. In the flame retardant business the Israelis don't yet make all the important flame retardants and I really don't have a good figure for it as to what their current market share is.

Mr. DOWNEY. What is it likely to be in your view if the free-trade zone goes into effect?

Mr. KARMEL. I think what we are very likely to see is the same kind of dominance that has occurred every place else in the world where the Israelis have had duty-free imports of the bromine compounds. I have seen no other place where this $230 million of expansion, export expansion, is to go to but into the United States. That would dominate the business here.

Mr. DOWNEY. Mr. Ackerman?

Mr. FRENZEL. Excuse me, Mr. Chairman, how many countries produce any of these products?

Mr. KARMEL. If the question is addressed to me, in bromine compounds it is really the Israelis and the United States as producers.

Mr. ACKERMAN. We can agree on that.

Mr. KARMEL. There are some others in Europe, but they are much smaller.

Mr. DOWNEY. Second, what do you anticipate the likely change in market share would be if the free-trade zone goes into effect?

Mr. ACKERMAN. The Dead Sea Bromide Co., is optimistic that it can increase its sales to the United States by at least $10 million through the decade. Certainly there is no—given the present access to the United States and given the fact that there will be a continual disadvantage by way of transportation costs and the like, it is not reasonable to expect that just because the United States accounts for 50 percent of world consumption that 50 percent of any increase in Israeli exports will go to the United States.

Mr. Downey. Thank you, gentlemen, very much.

The committee will next hear from Bertel Jewelers, Thelma Needelman, owner; Falick & Margolies, Inc., Abraham M. Margolies, president; and Famor Companies, Leon Farber, president.

I would ask the witness to summarize their testimony in 5 minutes for the committee. Thelma.

Is Mr. Margolies or Mr. Farber here?

Ms. Needelman. This may be them now.

Mr. Downey. That is what I call good timing.

Ms. Needelman. Planes were delayed.

We will recognize Ms. Needelman first for her testimony, and if you can just summarize your testimony and give it to us in about 5 minutes we would appreciate it.

STATEMENT OF THELMA NEEDELMAN, OWNER, BERTEL JEWELERS

Ms. Needelman. I am Thelma Needelman of Bertel Jewelers; we manufacture karat gold and we sell to all the major retail outlets throughout the country, the major department stores.

I am here today to indicate our support for the free trade arrangement because we feel that it will enhance our business as well so that we can also export to Israel. We really cannot comprehend the position of the MJSA because we feel they do not represent the karat-gold manufacturer. They have traditionally been an organization that has represented the costume jewelry industry and the reason the costume jewelry industry is in such bad shape in our opinion is that 40 cents worth of brass evolves into a $12 to $15 pair of earrings and the public is no longer buying this sort of a situation.

They prefer to buy gold. The gold situation has deteriorated because of the fluctuation of gold, it has gone as high as $800, it has been very, very volatile, and with the recession that has not helped at all. People were not into buying gold just as they were not into buying cars and things like that. So I say the fault really lies within ourselves because if we are—if the costume jewelry industry which they are presenting as part of this aggregate figure, is in this sort of situation, it is their own fault.

This industry has been dying considerably. Now of course the gold industry in order to meet the competition has taken to making lighter weights and being able to produce things which are virtually comparable with a lot of costume jewelry. This has enhanced our business. We have met the needs for lower priced goods by doing just this, and this is why I cannot at all comprehend the position of the MJSA.

It makes absolutely no sense.

I have brought with me about 40 letters from other manufacturers who feel the same way, who are also members of the MJSA and are very, very much disturbed by this because they were not even consulted on this matter. They cannot comprehend it. I have a letter here from one of the major New York department stores whose reaction to this situation about the Israeli jewelry was, you know, she was totally astonished because they use very, very little jewelry. It is minuscule. The Israeli jewelry industry is minuscule, there is no way they can compete with us.

The chief competitor is Italian. I don't know how we can beat that because they really are masters at their craft, and they are able to produce styling that is very essential. If we do not have this styling we would do no business. The mainstay of the jewelry business in the past 5 years has been chains. Everybody has been buying chains—men, even men who never wore these things before have gone in for gold chain neckpieces and bracelets. Therefore, the figures even with the improvement in the economy, Israeli gold imports have not improved because as things improve we sell our own products more easily. We have improved our situation.

By their own admission the MJSA in August of 1983—they had an editorial in their own American Jewelry Manufacturing Magazine, in which they say the chief problem of the industry is the lack of creativity and ingenuity.

This is what has happened in Providence. They have not retooled and bought machinery to make Italian chain. They don't have the capability of design that the Italians have. The Israelis are only copying the Italians, you know, so they are at best second best, they are not even good at it, which is so incredible.

So this whole situation is ludicrous.

[The prepared statement and attachments follow:]

STATEMENT OF THELMA NEEDELMAN, BERTEL JEWELERS

Members of the Subcommittee:

I am Thelma Needleman of Bertel Jewelers of New York City. Bertel Jewelers is a karat-gold manufacturer, selling to major retail outlets throughout the United States.

I am here today to indicate my and my company's support for the Free Trade Area arrangement between Israel and the United States. I believe that such an arrangement will serve to enhance trade between the countries and will benefit the gold jewelry industry of both nations.

It is incomprehensible to me that the Manufacturing Jewelers and Silversmiths of America, purporting to represent the karat-gold manufacturers, has taken a stand in opposition to the inclusion of gold jewelry in the free trade arrangement.

To my knowledge, the MJSA speaks for a miniscule portion of the gold jewelry industry, namely the gold chain manufacturer.

. . .

Since most of the opposition by MJSA has indeed focused on gold chain, I would like to deal with this aspect in depth.

The United States gold chain manufacturers have produced traditional, standard types of chain and have not moved into the re-tooling and machinery needed to make the high-fashion, lighter styles that are imported from Italy. If it were not for the Italians, it is very unlikely that today's chain business would be so good, extending even to men's neckpieces and bracelets. Indeed, chain business has been the mainstay of our business for the past several years.

As a result of Italy's ability to capitalize on high-fashion and superior quality, Italy is today the major importer into the United States of gold jewelry and, in particular, of gold chain. Currently, Italian imports into the United States are, I am told, five times greater than Israel's. Further, Italian chain is subsidised by the Italian government so that it is very difficult to compete with. Although Israel's chain tends to copy Italy's, it is decidedly inferior and, thereby, less accepted here.

I am telling you this because, simply stated, if Israel's gold chain imports were to cease tomorrow we would not be able to turn to the United States chain industry to round out our product line. We would still have to go to Italy.

I believe that if you were to canvas most retailers as well as manufacturers of gold jewelry in this country, they would say the very same thing. In fact, I have brought with me today approximately forty letters supporting this position. Many of these letters are from members of the MJSA.

Let me now focus on some of the comments I have heard made by the MJSA in its opposition to including gold jewelry in the Free Trade Area. MJSA has argued that, as a result of duty-free benefits under the GSP afforded to Israel, U.S. jewelry manufacturers, in general, and gold chain manufacturers in particular, have lost sales. (Israeli rope chain is not duty free). MJSA claims that, as a result, employment is down significantly.

Firstly, it should be noted that the vast majority of jewelry producers in this country are producers of costume jewelry, and most unemployment is in that sector. Costume jewelry has lost its allure because it has no intrinsic value and the public is more aware of that now.

Secondly, the problems faced by the karat gold manufacturers are the result of the tremendous fluctuations, the volatility of gold prices. As you may recall, gold reached almost $800 an ounce a few years ago, and is currently about $375 an ounce. This, not imports, has caused the great hardships our industry has had to face over past few years. In fact, during this period of dramatic fluctuation, the jewelry industries of all nations suffered.

Since most of the unemployment is in the costume jewelry sector, it seems unfair to extend the problem to the karat gold area. MJSA has, it seems, combined the employment and sales statistics for costume jewelry with those of the gold jewelry and has based its argument on those aggregate statistics. In analyzing any statistics, we have to view the two portions separately. If you do, you will find that the conclusions are quite different. Most of the jobs lost were in costume jewelry and Israel does not even produce costume jewelry!

MJSA stated before the Senate Finance Committee:

> The domestic jewelry manufacturing industry is slowly beginning to emerge from a depressed condition due to the nationwide recession, inflation, and volatility of precious metal prices.

Further, I would like to refer you to an editorial in the American Jewelry Manufacturer, dated August 1983. This is the periodical of the MJSA. In this editorial, the MJSA outlines the conditions which led to our industry's problems. They lay the blame on the lack of ingenuity and creativity prevalent in the industry. Nowhere is it mentioned that imports contributed to the problems of our domestic industry.

In sum then, I believe--and I think most jewelry manufacturers and retailers believe--that the United States jewelry industry is not being hurt to any significant degree by jewelry imports from Israel. Israel is vying with Italy, not with the United States producers, for sales in this market. I believe a Free Trade Area with jewelry included will have virtually no effect on U.S. producers.

EDITORIAL

Where's the creativity?

We've talked at length lately about some of the changes that the industry has undergone during the past several difficult years.

There are other changes that we haven't yet addressed. It used to be that a retail jeweler sold jewelry to the public, period (yes, he did repair work and some special order work, but, with the exception of obvious special cases such as Zales and Tiffany, he did not manufacture).

This familiar and comfortable pattern has been changing, with the result that heretofore distinct demarcations and boundaries have become rather grey areas.

There are reasons for this change, and we feel one of the primary ones is an overall lack of distinctive jewelry being offered in the marketplace.

Many have decried the lack of distinctive design in U.S. jewelry — the lack of individualism, the lack of creativity. (In all fairness it must be pointed out that the merchandise of many foreign countries has a sameness to it, as well.) "Everything looks the same," people say after wandering through a large trade show such as JA. This is because to a large extent, everything *is* the same. Some manufacturers do little more than buy castings, mount stones, and finish them. As a result, you may well see the same piece shown — perhaps with a different colored stone in it — at many booths in a large show. And this is not the casters' fault. Casters spend a lot of money and time to develop their lines — indeed, some feel that most of the creative work in the industry is being done by the casters rather than the manufacturers.

Also, manufacturers have a tendency to jump on a bandwagon. If a certain type of jewelry makes a hit, everyone will put out lines that are perhaps not identical, but very very similar.

Then, of course, there is the knockoff, with the result that some lines appear identical.

A trip through a major trade show always reveals an enormous amount of merchandise that looks the same — so much so, in fact, that sometimes it's hard to tell whether or not you've been through a particular room full of exhibitors already.

The retailers have certainly noticed this. They've added two and two, and they've come up with four. They can buy the castings themselves and finish them, thereby cutting out the manufacturer whose lack of creativity has made him in effect little more than a middleman; or they can attempt to design and manufacture a line or type of line that they feel will sell but that they can't find at the shows; or, of course, they can knock off lines that they see in the marketplace.

This greying of the traditional area between retailer and manufacturer has become controversial and has caused many problems within the industry.

For one, there is now the question of association membership and show attendance. A retailer used to be a member of RJA — now JA — and a manufacturer was a member of MJ&SA, period. Retailers went to the retail shows, manufacturers went to the manufacturers' shows. The system had the virtue of simplicity.

Now, a person can legitimately belong to both organizations. He may legitimately be able to attend both retailers' and manufacturers' shows. The problems are obvious: Retailers can buy from their suppliers' suppliers at a manufacturers' show; and though manufacturers aren't allowed at retailers' shows for obvious reasons, a retailer with a substantial manufacturing operation will be able to go in and get a good look at hundreds, maybe thousands of manufacturers' lines.

This development has caused a great deal of confusion within the industry, but it is a fact of life — one of the new realities we'll all be dealing with as the '80s move toward the '90s. To a large extent this development has been mandated by the realities of the marketplace, and by an overall reliance by manufacturers on commercial products unrelieved by their own individuality and creativity — which used to be the commodities that the manufacturer sold as much as precious metal and craftsmanship.

Those same realities of the marketplace will dictate success or failure. If the retailer finds out that the profits generated aren't great enough to offset time and expense, then he will stop doing it.

If, however, he finds that the money he saves is substantial, then he'll do more and more of it.

So long as manufacturers rely on others for their creativity, and so long as a large percentage of the goods on the market are essentially similar, then the retailer will have the right to say that the manufacturers aren't offering him the kind of creative and unique merchandise he wants for his store.

Only the manufacturers themselves can change the direction of this trend.

How?

By again concentrating on creativity and individuality.

S. Aletti

Alexander's

PAULA FREIDMAN
Fine Jewelry & Watch buyer

[illegible] 7TH AVENUE, N.Y.C., N.Y.
TEL. 560-2491

The Honorable William E. Brock
United States Trade Representative
600 - 17th Street, N.W.
Washington, D.C. 20506

Dear Sir:

We are * retailers of fine gold jewelery and we wish to express our support of the proposed free trade area between the United States and Israel.

We find it totally incomprehensible that the Manufacturing Jewelers and Silversmiths of America has suggested that gold jewelery be excluded from the duty-free trade arrangement. As everyone in this industry knows, Italian imports far exceed Isreeli imports, despite Israel's duty-free benefits. We know that the quality of Isreeli jewelery is too poor to compete with Italian-or American made jewelery. Therefore, we feel the MJSA is not representative of our opinion.

We urge you to support the free trade arrangement and not to exclude gold jewelery.

Sincerely yours,

Paula Friedman

* Fill in manufacturer ..... retailer ..... importer .....

(212) 674-4303 / 915 BROADWAY, NEW YORK, N. Y. 10010

L and M castings, inc.

May 17, 1984

To the Congress of the U.S.

As a major American karat gold jewelry manufacturer, we feel that there is no threat to our business from the Israeli jewelry industry.

Therefore, as a member of MJSA, I oppose their position and urge you to continue Israel's duty free status. Remember that Israel is the only democracy in the Middle East that is also the ally of the United States.

Yours truly,

Bernard Zimmerman

Chairman

MANUFACTURING JEWELERS

CORDOVA, INC.
42-08 COLLEGE PT. BLVD.
FLUSHING, NEW YORK
212-961-1020
800-221-0744

DIRECT MAIL TO
P.O. BOX 1831
FLUSHING, NEW YORK 11352

May 17, 1984

The Honorable William E. Brock
United States Trade Representative
600 - 17th Street, N.W.
Washington, D.C. 20506

Dear Sir:

We are manufacturers of fine gold jewelry and we wish to express our support of the proposed free trade area between the United States and Israel.

We find it totally incomprehensible that the Manufacturing Jewelers and Silversmiths of America has suggested that gold jewelry be excluded from the duty-free trade arrangement. As everyone in this industry knows, Italian imports far exceed Israeli imports, despite Israel's duty-free benefits. We know that the quality of Israeli jewelery is too poor to compete with Italian or American made jewelry. Therefore, we feel the MJSA is not representative of our opinion.

We urge you to support the free trade arrangement and not to exclude gold jewelry.

Sincerely,

CORDOVA, INC.

Robert Kagan
RK: ks

NEW YORK • KOBE • PANAMA

Robert Schwager
71 WEST 47TH STREET
NEW YORK, N. Y. 10036

NTERNATIONAL CULTURED PEARLS
NTERNATIONAL JEWELRY CREATIONS (212) 582-1873

The Honorable William E. Brock
United States Trade Representative
600 - 17th Street, N.W.
Washington, D.C. 20506

Dear Sir:

We are * MFG AND IMPORTERS of fine gold jewelery and we wish to express our support of the proposed free trade area between the United States and Israel.

We find it totally incomprehensible that the Manufacturing Jewelers and Silversmiths of America has suggested that gold jewelery be excluded from the duty-free trade arrangement. As everyone in this industry knows, Italian imports far exceed Israeli imports, despite Israel's duty-free benefits. We know that the quality of Israeli jewelery is too poor to compete with Italian or American made jewelery. Therefore, we feel the MJSA is not representative of our opinion.

We urge you to support the free trade arrangement and not to exclude gold jewelery.

Sincerely yours,

Robert Schwager

* Fill in manufacturer ..... retailer ..... importer .....

INTERNATIONAL CULTURED PEARL CO.,
71 WEST 47th STREET
NEW YORK, N.Y. 10036

BERTEL JEWELERS
71 West 47th Street • New York, New York 10036 • (212) 819-0638
division of Telber Jewelry Corp.

The Honorable William E. Brock
United States Trade Representative
600 - 17th Street, N.W.
Washington, D.C. 20506

Dear Sir:

We are manufacturers of fine gold jewelery and we wish to express our support of the proposed free trade area between the United States and Israel.

We find it totally incomprehensible that the Manufacturing Jewelers and Silversmiths of America has suggested that gold jewelery be excluded from the duty-free trade arrangement. As everyone in this industry knows, Italian imports far exceed Israeli imports, despite Israel's duty-free benefits. We know that the quality of Israeli jewelery is too poor to compete with Italian of American made jewelery. Therefore, we feel the MJSA is not representative of our opinion.

We urge you to support the free trade arrangement and not to exclude gold jewelery.

Sincerely yours,

Thelma Needelman

Thelma Needelman

ATOMIC - LEADRA
CREATIONS CREATIONS

42 WEST 48 STREET
NEW YORK, N.Y. 10036
212/719-2310 212/719-2320
2311 2321

The Honorable William E. Brock
United States Trade Representative
600 - 17th Street, N.W.
Washington, D.C. 20506

Dear Sir:

We are * MANUFACTURER of fine gold jewelery and we wish to express our support of the proposed free trade area between the United States and Israel.

We find it totally incomprehensible that the Manufacturing Jewelers and Silversmiths of America has suggested that gold jewelery be excluded from the duty-free trade arrangement. As everyone in this industry knows, Italian imports far exceed Israeli imports, despite Israel's duty-free benefits. We know that the quality of Israeli jewelery is too poor to compete with Italian or American made jewelery. Therefore, we feel the MJSA is not representative of our opinion.

We urge you to support the free trade arrangement and not to exclude gold jewelery.

Sincerely yours,

Leo Edward

* Fill in manufacturer ..... retailer ..... importer .....

C
I
S

Boris Kupermann

CHARMED, I'M SURE INC.
Jewelers

7 West 45th Street
New York, New York 10036
(212) 869-7498

The Honorable William E. Brock
United States Trade Representative
600 - 17th Street, N.W.
Washington, D.C. 20506

Dear Sir:

We are a manufacturer of fine gold jewelery and we wish to express our support of the proposed free trade area between the United States and Israel.

We find it totally incomprehensible that the Manufacturing Jewelers and Silversmiths of America; without conducting an opinion surway in the industry and between its members, has suggested that gold jewelery be excluded from the duty-free trade arrangement. As everyone in this industry knows, Italian imports far exceed Israeli imports, despite Israel's duty-free benefits. We know that the quality of Israeli jewelery is too poor to compete with Italian or American made jewelery. Therefore, we feel the MJSA is not representative of our opinion.

We urge you to support the free trade arrangement and not to exclude gold jewelery.

Sincerely yours,

Fill in: a manufacturer....a retailer....an importer

TEL. (212) 719-4487 ROOM 1101

Asta-Tittman Jewelry Mfg. Co.
EXPERT WORK ON CLASPS PINS & EARRINGS

20 WEST 47th STREET
NEW YORK, N. Y. 10036

The Honorable William E. Brock
United States Trade Representative
600 - 17th Street, N.W.
Washington, D.C. 20506

Dear Sir:

We are * Manufacturer of fine gold jewelery and we wish to express our support of the proposed free trade area between the United States and Israel.

We find it totally incomprehensible that the Manufacturing Jewelers and Silversmiths of America has suggested that gold jewelery be excluded from the duty-free trade arrangement. As everyone in this industry knows, Italian imports far exceed Israeli imports, despite Israel's duty-free benefits. We know that the quality of Israeli jewelery is too poor to compete with Italian or American made jewelery. Therefore, we feel the MJSA is not representative of our opinion.

We urge you to support the free trade arrangement and not to exclude gold jewelery.

Sincerely yours,

Wolcic Tittman

* Fill in manufacturer ..... retailer ..... importer .....

Co CONSOLIDATED
2 West 47th Street
New York, N.Y. 10036

The Honorable William E. Brock
United States Trade Representative
600 - 17th Street, N.W.
Washington, D.C. 20506

Dear Sir:

We are * Manufact. of fine gold jewelery and we wish to express our support of the proposed free trade area between the United States and Israel.

We find it totally incomprehensible that the Manufacturing Jewelers and Silversmiths of America has suggested that gold jewelery be excluded from the duty-free trade arrangement. As everyone in this industry knows, Italian imports far exceed Israeli imports, despite Israel's duty-free benefits. We know that the quality of Israeli jewelery is too poor to compete with Italian or American made jewelery. Therefore, we feel the MJSA is not representative of our opinion.

We urge you to support the free trade arrangement and not to exclude gold jewelery.

CONSOLIDATED JEWLRY CO.
BERNARD RAPAPORT

Sincerely yours,

* Fill in manufacturer ..... retailer ..... importer .....

[redacted] 869-5931
869-3774

5th Floor

Aron Orenstein
REFINER
Gold – Platinum – Silver
PLATE – WIRE – STAMPING – SOLDERS – ALLOY
METAL ROLLED TO SIZE AND SHAPE
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ASSAYS MADE

125 West 45th Street
New York, N. Y. 10036

The Honorable William E. Brock
United States Trade Representative
600 - 17th Street, N.W.
Washington, D.C. 20506

Dear Sir:

We are * Manufacturer of fine gold jewelery and we wish to express our support of the proposed free trade area between the United States and Israel.

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We urge you to support the free trade arrangement and not to exclude gold jewelery.

Sincerely yours,

Aron Orenstein

Ad [illegible] [illegible]

* Fill in manufacturer ..... retailer ..... importer .....

mj
mastro jewelry corp.
71 WEST 47TH STREET · NEW YORK, N.Y. 10036 · 212-869-5252
TOLL FREE 800-223-2220

MANUFACTURERS OF 14K DIAMOND JEWELRY

The Honorable William E. Brock
United States Trade Representative
600 - 17th Street, N.W.
Washington, D.C. 20506

Dear Sir:

We are * MANUFACTURERS of fine gold jewelery and we wish to express our support of the proposed free trade area between the United States and Israel.

We find it totally incomprehensible that the Manufacturing Jewelers and Silversmiths of America has suggested that gold jewelery be excluded from the duty-free trade arrangement. As everyone in this industry knows, Italian imports far exceed Israeli imports, despite Israel's duty-free benefits. We know that the quality of Israeli jewelery is too poor to compete with Italian or American made jewelery. Therefore, we feel the MJSA is not representative of our opinion.

We urge you to support the free trade arrangement and not to exclude gold jewelery.

Sincerely yours,

* Fill in manufacturer ..... retailer ..... importer .....

(212) 391-0054-5

Markowitz Jewelry Co., Inc.

20 WEST 47TH STREET
ROOM 1010 NEW YORK, N. Y. 10036

The Honorable William E. Brock
United States Trade Representative
600 - 17th Street, N.W.
Washington, D.C. 20506

Dear Sir:

We are *MANUFATURES of fine gold jewelery and we wish to express our support of the proposed free trade area between the United States and Israel.

We find it totally incomprehensible that the Manufacturing Jewelers and Silversmiths of America has suggested that gold jewelery be excluded from the duty-free trade arrangement. As everyone in this industry knows, Italian imports far exceed Israeli imports, despite Israel's duty-free benefits. We know that the quality of Israeli jewelery is too poor to compete with Italian or American made jewelery. Therefore, we feel the MJSA is not representative of our opinion.

We urge you to support the free trade arrangement and not to exclude gold jewelery.

P.S. I AM A MEMBER OF THE MJSA.
I HAVE NOT BEEN NOTIFIED OF
THIS ACTION

Sincerely yours,

* Fill in manufacturer ..... retailer ..... importer .....

(2) [illegible]		(212) 354-2886

FREMADA CORP.
IMPORTERS - WHOLESALERS
ITALIAN GOLD - SILVER

ASSIM MOUHADDEB		2 WEST 45TH STREET
NEW YORK, N.Y. 10036

The Honorable William E. Brock
United States Trade Representative
600 - 17th Street, N.W.
Washington, D.C. 20506

Dear Sir:

We are * IMPORTERS of fine ITALIAN gold jewelery and we wish to express our support of the proposed free trade area between the United States and Israel.

We find it totally incomprehensible that the Manufacturing Jewelers and Silversmiths of America has suggested that gold jewelery be excluded from the duty-free trade arrangement. As everyone in this industry knows, Italian imports far exceed Israeli imports, despite Israel's duty-free benefits. We know that the quality of Israeli jewelery is too poor to compete with Italian or American made jewelery. Therefore, we feel the MJSA is not representative of our opinion.

We urge you to support the free trade arrangement and not to exclude gold jewelery.

Sincerely yours,

FREMADA GOLD INC

* Fill in manufacturer ..... retailer ..... importer......

730-0035-6

EWELRY MANUFACTURING TEL 582-3936
245-0395

Ben Lou

71 WEST 47 STREET
NEW YORK, NY 10036
ROOM 802

The Honorable William E. Brock
United States Trade Representative
600 - 17th Street, N.W.
Washington, D.C. 20506

Dear Sir:

We are *MANUFACTURER of fine gold jewelery + ROPECHAIN and we wish to express our support of the proposed free trade area between the United States and Israel.

We find it totally incomprehensible that the Manufacturing Jewelers and Silversmiths of America has suggested that gold jewelery be excluded from the duty-free trade arrangement. As everyone in this industry knows, Italian imports far exceed Israeli imports, despite Israel's duty-free benefits. We know that the quality of Israeli jewelery is too poor to compete with Italian or American made jewelery. Therefore, we feel the MJSA is not representative of our opinion.

We urge you to support the free trade arrangement and not to exclude gold jewelery.

Sincerely yours,

* Fill in manufacturer ..... retailer ..... importer .....

TELEPHONE (212) 819-0690
TOLL FREE - 1-800-227-6799

Apollo Gold Chain Corp.

MFGRS. & IMPORTERS OF 14K GOLD
BRACELETS, CHAINS, CHARMS, RINGS
EARRINGS
COMPLETE LINE OF 18K GOLD IMPORTS

15 WEST 47TH STREET
NEW YORK, N. Y. 10036
ROOM 207

AM KAHAN

The Honorable William E. Brock
United States Trade Representative
600 - 17th Street, N.W.
Washington, D.C. 20506

Dear Sir:

We are * Importer and MFG of fine gold jewelery and we wish to express our support of the proposed free trade area between the United States and Israel.

We find it totally incomprehensible that the Manufacturing Jewelers and Silversmiths of America has suggested that gold jewelery be excluded from the duty-free trade arrangement. As everyone in this industry knows, Italian imports far exceed Israeli imports, despite Israel's duty-free benefits. We know that the quality of Israeli jewelery is too poor to compete with Italian or American made jewelery. Therefore, we feel the MJSA is not representative of our opinion.

We urge you to support the free trade arrangement and not to exclude gold jewelery.

Sincerely yours,
Oscar Kahan

* Fill in manufacturer ..... retailer ..... importer .....

(212) 840-7820-1
800-223-0550

TELEX NO.
COSMOS 620365 UW

COSMO
CHAIN CORP.

EDITH KAHAN

71 WEST 47TH STREET
2ND FLOOR
NEW YORK, N.Y. 10036

The Honorable William E. Brock
United States Trade Representative
600 - 17th Street, N.W.
Washington, D.C. 20506

Dear Sir:

We are * importers & mfg. of fine gold jewelery and we wish to express our support of the proposed free trade area between the United States and Israel.

We find it totally incomprehensible that the Manufacturing Jewelers and Silversmiths of America has suggested that gold jewelery be excluded from the duty-free trade arrangement. As everyone in this industry knows, Italian imports far exceed Israeli imports, despite Israel's duty-free benefits. We know that the quality of Israeli jewelery is too poor to compete with Italian or American made jewelery. Therefore, we feel the MJSA is not representative of our opinion.

We urge you to support the free trade arrangement and not to exclude gold jewelery.

Sincerely yours,

Edith Kahan

* Fill in manufacturer ..... retailer ..... importer .....

(212) 840-8825

Majestic Jewelry Co. Inc.

Steve Kreisberg
71 West 47th Street
New York, N.Y. 10036

The Honorable William E. Brock
United States Trade Representative
600 - 17th Street, N.W.
Washington, D.C. 20506

Dear Sir:

We are * manufacturers of fine gold jewelery and we wish to express our support of the proposed free trade area between the United States and Israel.

We find it totally incomprehensible that the Manufacturing Jewelers and Silversmiths of America has suggested that gold jewelery be excluded from the duty-free trade arrangement. As everyone in this industry knows, Italian imports far exceed Israeli imports, despite Israel's duty-free benefits. We know that the quality of Israeli jewelery is too poor to compete with Italian or American made jewelery. Therefore, we feel the MJSA is not representative of our opinion.

We urge you to support the free trade arrangement and not to exclude gold jewelery.

Sincerely yours,

* Fill in manufacturer ..... retailer ..... importer .....

TEL. 719-4694

2ND FLOOR

METROPOLITAN JEWELRY CO.

CONTRACTING AND MANUFACTURING
OF 14KT GOLD CHAINS AND RINGS

SOLOMON KAHAN

20 WEST 47TH STREET
NEW YORK, N.Y. 10036

The Honorable William E. Brock
United States Trade Representative
600 - 17th Street, N.W.
Washington, D.C. 20506

Dear Sir:

We are *MANUFACTURER of fine gold jewelery and we wish to express our support of the proposed free trade area between the United States and Israel.

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We urge you to support the free trade arrangement and not to exclude gold jewelery.

Sincerely yours,

* Fill in manufacturer ..... retailer ..... importer .....

Astoria Jewelry Mfg. Co. Inc.
[illegible]
[illegible]
[illegible]

The Honorable William E. Brock
United States Trade Representative
600 - 17th Street, N.W.
Washington, D.C. 20506

Dear Sir:

We are *manufactures of fine gold jewelery and we wish to express our support of the proposed free trade area between the United States and Israel.

We find it totally incomprehensible that the Manufacturing Jewelers and Silversmiths of America has suggested that gold jewelery be excluded from the duty-free trade arrangement. As everyone in this industry knows, Italian imports far exceed Israeli imports, despite Israel's duty-free benefits. We know that the quality of Israeli jewelery is too poor to compete with Italian or American made jewelery. Therefore, we feel the MJSA is not representative of our opinion.

We urge you to support the free trade arrangement and not to exclude gold jewelery.

Sincerely yours,

Joseph Zeller

* Fill in manufacturer ..... retailer ..... importer .....

ALMOND, INC.
16 WEST 46 STREET
NEW YORK, N.Y.

The Honorable William E. Brock
United States Trade Representative
600 - 17th Street, N.W.
Washington, D.C. 20506

Dear Sir:

We are *manufacturer of fine gold jewelery and we wish to express our support of the proposed free trade area between the United States and Israel.

We find it totally incomprehensible that the Manufacturing Jewelers and Silversmiths of America has suggested that gold jewelery be excluded from the duty-free trade arrangement. As everyone in this industry knows, Italian imports far exceed Israeli imports, despite Israel's duty-free benefits. We know that the quality of Israeli jewelery is too poor to compete with Italian or American made jewelery. Therefore, we feel the MJSA is not representative of our opinion.

We urge you to support the free trade arrangement and not to exclude gold jewelery.

I am a member of the MJSA and have not been consulted on this matter.

Sincerely yours,

Jonathan Mandelbaum
Almond Jewelers, Inc.

* Fill in manufacturer ..... retailer ..... importer .....

ALMOND INC.
16 WEST 46TH STREET
NEW YORK, N.Y. 10036

JUDSON 2-3619

MAX GREIF
JEWELRY MFG. CO., Inc.
62 WEST 47TH STREET — NEW YORK 36, N. Y.

The Honorable William E. Brock
United States Trade Representative
600 - 17th Street, N.W.
Washington, D.C. 20506

May 17, 1984

Dear Sir,

We are manufacturers of fine gold jewelery, members of Manufacturing Jewelers and Silversmiths of America and we wish to express our support of the proposed free trade area between the United States and Israel.

We find it totally incomprehensible that the Manufacturing Jewelers and Silversmiths of America has suggested that gold jewelery be excluded from the duty-free trade arrangement. As everyone in this industry knows, Italian imports far exceed Israeli imports, despite Israel's duty-free benefits. We know that the quality of Israeli jewelery is too poor to compete with Italian or American made jewelery. Therefore, we feel the MJSA is not representative of our opinion.

We urge to support the free trade arrangement and not to exclude gold jewelery.

Sincerely yours,
Elegant Jewelry Mfg.Co.

Max Greif

ELEGANT • JEWELRY MANUFACTURING CO.

62 WEST 47th STREET • NEW YORK, N.Y. 10036 • 212-719-2110
719-2111
719-2112

The Honorable William E. Brock
United States Trade Representative
600 - 17th Street, N.W.
Washington, D.C. 20506

May 17, 1984

Dear Sir,

We are manufacturers of fine gold jewelery, members of Manufacturing Jewelers and Silversmiths of America and we wish to express our support of the proposed free trade area between the United States and Israel.

We find it totally incomprehensible that the Manufacturing Jewelers and Silversmiths of America has suggested that gold jewelery be excluded from the duty-free trade arrangement. As everyone in this industry knows, Italian imports far exceed Israeli imports, despite Israel's duty-free benefits. We know that the quality of Israeli jewelery is too poor to compete with Italian or American made jewelery. Therefore, we feel the MJSA is not representative of our opinion.

We urge to support the free trade arrangement and not to exclude gold jewelery.

Sincerely yours,
Elegant Jewelry Mfg.Co.

Gerald Greif

TRENDSETTERS™ ABL IN MEN'S JEWELRY
22 WEST 48TH STREET NEW YORK, NEW YORK 10036 212 869 5533

The Honorable William E. Brock
United States Trade Representative
600 - 17th Street, N.W.
Washington, D.C. 20506

Dear Sir:

We are *manufacturers of fine gold jewelery and we wish to express our support of the proposed free trade area between the United States and Israel.

We find it totally incomprehensible that the Manufacturing Jewelers and Silversmiths of America has suggested that gold jewelery be excluded from the duty-free trade arrangement. As everyone in this industry knows, Italian imports far exceed Israeli imports, despite Israel's duty-free benefits. We know that the quality of Israeli jewelery is too poor to compete with Italian or American made jewelery. Therefore, we feel the MJSA is not representative of our opinion.

We urge you to support the free trade arrangement and not to exclude gold jewelery.

Sincerely yours,

President
ABL Jewelers, Inc.

* Fill in manufacturer ..... retailer ..... importer .....

P.S. We are members of the M.J.S.A.

LOU BLANK

Joseph Blank Inc.

IMPORTERS OF
DIAMONDS
PRECIOUS, SEMI-PRECIOUS
AND SYNTHETIC STONES

15 WEST 47th STREET, NEW YORK, N.Y. 10036
(212) 575-9050

The Honorable William E. Brock
United States Trade Representative
600 - 17th Street, N.W.
Washington, D.C. 20506

Dear Sir:

We are * Importers of LOOSE DIAMONDS ~~fine gold jewelery~~ and we wish to express our support of the proposed free trade area between the United States and Israel.

We find it totally incomprehensible that the Manufacturing Jewelers and Silversmiths of America has suggested that gold jewelery be excluded from the duty-free trade arrangement. As everyone in this industry knows, Italian imports far exceed Israeli imports, despite Israel's duty-free benefits. We know that the quality of Israeli jewelery is too poor to compete with Italian or American made jewelery. Therefore, we feel the MJSA is not representative of our opinion.

We urge you to support the free trade arrangement and not to exclude gold jewelery.

Sincerely yours,

Louis Blank

* Fill in manufacturer ..... retailer ..... importer .....

PLAZA 7-{2827
2828

WM. CHALSON & CO., INC.
FINE DIAMOND JEWELRY

BERNARD CHALSON

42 WEST 48TH STREET
NEW YORK, N. Y. 10036

The Honorable William E. Brock
United States Trade Representative
600 - 17th Street, N.W.
Washington, D.C. 20506

Dear Sir:

We are * Manufacturer of fine gold jewelery and we wish to express our support of the proposed free trade area between the United States and Israel.

We find it totally incomprehensible that the Manufacturing Jewelers and Silversmiths of America has suggested that gold jewelery be excluded from the duty-free trade arrangement. As everyone in this industry knows, Italian imports far exceed Israeli imports, despite Israel's duty-free benefits. We know that the quality of Israeli jewelery is too poor to compete with Italian or American made jewelery. Therefore, we feel the MJSA is not representative of our opinion.

We urge you to support the free trade arrangement and not to exclude gold jewelery.

Sincerely yours,
Bernard Chalson
for Wm Chalson & Co. Inc

* Fill in manufacturer ..... retailer ..... importer .....

(800) 223-9924

Joseph Lipschutz
Vice President

Baumgold Bros. Inc.
580 Fifth Avenue
New York, N.Y. 10036 (212) 840-3377

The Honorable William E. Brock
United States Trade Representative
600 - 17th Street, N.W.
Washington, D.C. 20506

Dear Sir:

We are *Importer of fine gold jewelery and we wish to express our support of the proposed free trade area between the United States and Israel.

We find it totally incomprehensible that the Manufacturing Jewelers and Silversmiths of America has suggested that gold jewelery be excluded from the duty-free trade arrangement. As everyone in this industry knows, Italian imports far exceed Israeli imports, despite Israel's duty-free benefits. We know that the quality of Israeli jewelery is too poor to compete with Italian or American made jewelery. Therefore, we feel the MJSA is not representative of our opinion.

We urge you to support the free trade arrangement and not to exclude gold jewelery.

Sincerely yours,

Baumgold Bros. Inc.
Joseph Lipschutz

* Fill in manufacturer ..... retailer ..... importer .....

P.S. As a member of the MJSA we should have been consulted of this action.

J. Lipschutz

citra

- CITRA DIAMOND CORP.
- CITRA STONE CORP.
- PEARLS BY CITRA LTD.
- CITRA ITALIAN JEWELRY
- IWC - SCHAFFHAUSEN WATCH CORP.
- PORSCHE DESIGN

H. CHITRIK
PRESIDENT

May 17, 1984

The Honorable William E. Brock
United States Trade Representative
600 - 17th Street, N.W.
Washington D.C. 20506

Dear Sir:

Citra Trading Corporation is one of the largest gold jewelry importers in the United States. We know that the importation of gold jewelry did not hurt the American made Jewelry Market. Contrary, it has served to help the industry in many fields, such as styling and pricing etc. Since we have begun to import foreign merchandise to the United States, production of gold chains etc., by American manufacturers, has increased many times over.

Therefore the contention of the Manufacturing Jewelers and Silversmiths of America, that imporations from Israel will impede American manufactures, is definitely unfounded and without any base.

The opposite is true. Israeli importation will stimulate the American manufacturers to produce a better product. Since most components used in jewelry are actually manufactured in the United States, on a very large scale, the costs of production are thus lowered.

On the other hand Israel purchases many components from the United States. Therefore by stimulating Israeli production, we are actually, in turn, increasing the sale of American-made jewelry components. These components are then exported to Europe, without duty, to the European market.

The American manufacturers of jewelry parts, stand to gain a new market by shipping their goods through Israel. In as much, we can justly say all fronts will gain by granting the duty-free trade agreement.

Very truly yours,

H. Chitrik
Citra Trading Corporation

CITRA TRADING CORPORATION

580 FIFTH AVENUE
NEW YORK, N.Y. 10036
TEL: 212 — 247-5303 — 354-7950

BOOKKEEPING: 247-4573

CABLES: RAVCHIT N.Y.
TELEX: 420510 CTRA
220498 CITRA
D-U-N-S: 01-195-8519

MEMBER JEWELERS BOARD OF TRADE
MEMBER DIAMOND DEALERS CLUB
MEMBER CULTURED PEARL ASSOCIATION

ALPHA TOOL, DIE
AND JEWELRY ENGINE TURNING CO.
7 WEST 45TH STREET NEW YORK, N. Y. 10036 CIRCLE 6-9056-7

ENGINE TURNING – BROCADING – PANTOGRAPHING
DIAM.-FACET CUTTING – STAMPING – PRECISION
MACHINIST AND SPECIAL ORDER WORK

The Honorable William E. Brock
United States Trade Representative
600 - 17th Street, N.W.
Washington, D.C. 20506

Dear Sir:

We are manufacturers of fine gold jewelery and we wish to express our support of the proposed free trade area between the United States and Israel.

We find it totally incomprehensible that the Manufacturing Jewelers and Silversmiths of America; without conducting an opinion surway in the industry and between its members, has suggested that gold jewelery be excluded from the duty-free trade arrangement. As everyone in this industry knows, Italian imports far exceed Israeli imports, despite Israel's duty-free benefits. We know that the quality of Israeli jewelery is too poor to compete with Italian or American made jewelery. Therefore, we feel the MJSA is not representative of our opinion.

We urge you to support the free trade arrangement and not to exclude gold jewelery.

Sincerely yours,

R. J. JEWELRY MFG. CO.
7 WEST 45TH STREET
NEW YORK, N. Y. 10036

The Honorable William E. Brock
United States Trade Representative
600 - 17th Street, N.W.
Washington, D.C. 20506

Dear Sir:

We are manufacturers of fine gold jewelery and we wish to express our support of the proposed free trade area between the United States and Israel.

We find it totally incomprehensible that the Manufacturing Jewelers and Silversmiths of America; without conducting an opinion surway in the industry and between its members, has suggested that gold jewelery be excluded from the duty-free trade arrangement. As everyone in this industry knows, Italian imports far exceed Israeli imports, despite Israel's duty-free benefits. We know that the quality of Israeli jewelery is too poor to compete with Italian or American made jewelery. Therefore, we feel the MJSA is not representative of our opinion.

We urge you to support the free trade arrangement and not to exclude gold jewelery.

L. Stilla

Sincerely yours,

Rockson
Jewelry Manufacturing Co., Inc.
CREATIVE GOLDSMITHS
7 West 45th Street
NEW YORK, N. Y. 10036

The Honorable William E. Brock
United States Trade Representative
600 - 17th Street, N.W.
Washington, D.C. 20506

Dear Sir:

We are manufacturers of fine gold jewelery and we wish to express our support of the proposed free trade area between the United States and Israel.

We find it totally incomprehensible that the Manufacturing Jewelers and Silversmiths of America; without conducting an opinion surway in the industry and between its members, has suggested that gold jewelery be excluded from the duty-free trade arrangement. As everyone in this industry knows, Italian imports far exceed Israeli imports, despite Israel's duty-free benefits. We know that the quality of Israeli jewelery is too poor to compete with Italian or American made jewelery. Therefore, we feel the MJSA is not representative of our opinion.

We urge you to support the free trade arrangement and not to exclude gold jewelery.

Sincerely yours,

V. Sikla

The Honorable William E. Rock
U.S. Trade Representative
600-17th St. N.W.
Washington, D.C. 20506

Dear Sir,

We are manufacturers of fine jewelry and wish to express our support of the proposed free trade area between the United States and Israel.

We find it totally incomprehensible that the Manufacturing Jewelers and Silversmiths of America has suggested that gold jewelry be excluded from the duty-free trade arrangement. As everyone knows in this industry Italian imports far exceed Israeli imports, despite Israel's duty-free benefits. We know that the quality of Israeli jewelry is too poor to compete with Italian jewelry or American jewelry for that matter. Therefore we feel that the MJSA is not representing our opinion.

We urge you to support the free trade arrangement and not to exclude gold jewelry.

Sincerely yours,

RONDETTE LTD.

P.S. We are current members of the MJSA and we were not notified of this action or polled.

RONDETTE LTD., 20 West 47th Street, New York, New York 10036 (212) 719-2009

CABLE ADDRESS HONORALIM, NEW YORK
TELEX: HONOR 668427UW

Honora Jewelry Co., Inc.

— Manufacturers of Fine Jewelry —

Honora Ltd.
Importers

580 FIFTH AVENUE, NEW YORK, N. Y. 10036
AREA CODE (212) 575-0505
CALL TOLL FREE 800-223-0440

D-U-N-S 06-122-7180

May 16, 1984

The Honorable William E. Brock
United States Trade Representative
600 - 17th Street, N.W.
Washington, D.C. 20506

Dear Sir:

We are a manufacturer of fine gold jewelry and we wish to express our support of the proposed free trade area between the United States and Israel.

We find it totally incomprehensible that the Manufacturing Jewelers and Silversmiths of America has suggested that gold jewelry be excluded from the duty-free trade arrangement. As everyone in this industry knows, Italian imports far exceed Israeli imports, despite Israel's duty-free benefits. We know that the quality of Israeli jewelry is too poor to compete with Italian or American made jewelry. Therefore, we feel the MJSA is not representative of our opinion.

We are members of the Manufacturing Jewelers and Silversmiths of America, and had no knowledge of their suggestion that Israel's gold jewelry should be excluded from the duty-free arrangement.

We also want to call to your attention that their are many nations throughout the world that manufacture jewelry and have undeveloped nation status and can export their jewelry duty-free into the United States.

WHY IS ISRAEL BEING SINGLED OUT IN THIS INSTANCE?

We urge you to support the free trade arrangement and not to exclude gold jewelry.

Very truly yours,

HONORA JEWELRY CO., INC.

JJG/lf

Jerome J. Grossbardt

MARTIN FLYER INC.
MANUFACTURERS AND STYLISTS OF FINE DIAMOND JEWELRY

The Honorable William E. Brock
United States Trade Representative
600 - 17th Street, N.W.
Washington, D.C. 20506

Dear Sir:

We are a Manufacturer of fine gold jewelery and we wish to express our support of the proposed free trade area between the United States and Israel.

We find it totally incomprehensible that the Manufacturing Jewelers and Silversmiths of America has suggested that gold jewelery be excluded from the duty-free trade arrangement. As everyone in this industry knows, Italian imports far exceed Israeli imports, despite Israel's duty-free benefits. We know that the quality of Israeli jewelery is too poor to compete with Italian or American made jewelery. Therefore, we feel the MJSA is not representative of our opinion.

We urge you to support the free trade arrangement and not to exclude gold jewelery.

Sincerely yours,
Gary Flyer
President

P.S.
we are a member of the MJSA. and
I have not been notified of their action
before The committe.

~~* Fill in manufacturer~~ ..... ~~retailer~~ ..... ~~importer~~ .....

42 WEST 48TH STREET, NEW YORK, N.Y. 10036 (212) 840-8899

J & H FLYER inc. 37 west 47 street new york, n.y. 10036-2889 (212) 869-5445
manufacturers of diamond jewelry

May 17, 1984

The Honorable William E. Brock
United States Trade Representative
600-17th Street, N.W.
Washington, D. C. 20506

Dear Sir:

We are manufacturers of fine gold jewelery and we wish to express our support of the proposed free trade area between the United States and Israel.

We find it totally incomprehensible that the Manufacturing Jewelers and Silversmiths of America has suggested that gold jewelery be excluded from the duty-free trade arrangement. As everyone in this industry knows, Italian imports far exceed Israeli imports, despite Israel's duty-free benefits. We know that the quality of Israeli jewelery is too poor to compete with Italian or American made jewelery. Therefore, we feel the MJSA is not representative of our opinion.

We urge you to support the free trade arrangement and not to exclude gold jewelery.

Sincerely yours,
J & H Flyer, Inc.

Gerald R. Flyer
President

GRF/ms

G. & W. CASTINGS, INC.
2 WEST 47 STREET, ROOM 1005
NEW YORK, N.Y. 10036

The Honorable William E. Brock
United States Trade Representative
600 - 17th Street, N.W.
Washington, D.C. 20506

Dear Sir:

We are * manufacturer of fine gold jewelery and we wish to express our support of the proposed free trade area between the United States and Israel.

We find it totally incomprehensible that the Manufacturing Jewelers and Silversmiths of America has suggested that gold jewelery be excluded from the duty-free trade arrangement. As everyone in this industry knows, Italian imports far exceed Israeli imports, despite Israel's duty-free benefits. We know that the quality of Israeli jewelery is too poor to compete with Italian or American made jewelery. Therefore, we feel the MJSA is not representative of our opinion.

We urge you to support the free trade arrangement and not to exclude gold jewelery.

Sincerely yours,

Benjamin [illegible]
G&W Castings
2 W 47 St NY. NY

* Fill in manufacturer ..... retailer ..... importer .....

Karbra Co., Inc.

62 WEST 47TH STREET, NEW YORK, N.Y. 10036
Phone: 212-719-2500

The Honorable William E. Brock
United States Trade Representative
600 - 17th Street, N.W.
Washington, D.C. 20506

May 17, 1984

Dear Sir,

We are manufacturers of fine gold jewelery, members of Manufacturing Jewelers and Silversmiths of America and we wish to express our support of the proposed free trade area between the United States and Israel.

We find it totally incomprehensible that the Manufacturing Jewelers and Silversmiths of America has suggested that gold jewelery be excluded from the duty-free trade arrangement. As everyone in this industry knows, Italian imports far exceed Israeli imports, despite Israel's duty-free benefits. We know that the quality of Israeli jewelery is too poor to compete with Italian or American made jewelery. Therefore, we feel the MJSA is not representative of our opinion.

We urge to support the free trade arrangement and not to exclude gold jewelery.

Sincerely yours,
Karbra Co.Inc.

Joseph Roth
President

BIRNBAUM & CO.
71 WEST 47 STREET

NEW YORK,N.Y.

The Honorable William E. Brock
United States Trade Representative
600 - 17th Street, N.W.
Washington, D.C. 20506

Dear Sir:

We are *manufacturing of fine gold jewelery and we wish to express our support of the proposed free trade area between the United States and Israel.

We find it totally incomprehensible that the Manufacturing Jewelers and Silversmiths of America has suggested that gold jewelery be excluded from the duty-free trade arrangement. As everyone in this industry knows, Italian imports far exceed Israeli imports, despite Israel's duty-free benefits. We know that the quality of Israeli jewelery is too poor to compete with Italian or American made jewelery. Therefore, we feel the MJSA is not representative of our opinion.

We urge you to support the free trade arrangement and not to exclude gold jewelery.

Sincerely yours,

BIRNBAUM & CO
71 WEST 47TH STREET
NEW YOPK, N.Y. 10036

* Fill in manufacturer ..... retailer ..... importer .....

JEFF COOPER, INC.
MANUFACTURERS OF FINE JEWELRY

(212) 944-1600

71 WEST 47TH STREET
NEW YORK, N.Y. 10036

The Honorable William E. Brock
United States Trade Representative
600 - 17th Street, N.W.
Washington, D.C. 20506

Dear Sir:

We are *Manufacturer of fine gold jewelery and we wish to express our support of the proposed free trade area between the United States and Israel.

We find it totally incomprehensible that the Manufacturing Jewelers and Silversmiths of America has suggested that gold jewelery be excluded from the duty-free trade arrangement. As everyone in this industry knows, Italian imports far exceed Israeli imports, despite Israel's duty-free benefits. We know that the quality of Israeli jewelery is too poor to compete with Italian or American made jewelery. Therefore, we feel the MJSA is not representative of our opinion.

We urge you to support the free trade arrangement and not to exclude gold jewelery.

Sincerely yours,

* Fill in manufacturer ..... retailer ..... importer .....

MANUFACTURING JEWELERS

CORDOVA, INC.
42-08 COLLEGE PT. BLVD.
FLUSHING, NEW YORK
212-961-1020
800-221-0744

DIRECT MAIL TO
P.O. BOX 1831
FLUSHING, NEW YORK 11352

May 17, 1984

The Honorable William E. Brock
United States Trade Representative
600 - 17th Street, N.W.
Washington, D.C. 20506

Dear Sir:

We are manufacturers of fine gold jewelry and we wish to express our support of the proposed free trade area between the United States and Israel.

We find it totally incomprehensible that the Manufacturing Jewelers and Silversmiths of America has suggested that gold jewelry be excluded from the duty-free trade arrangement. As everyone in this industry knows, Italian imports far exceed Israeli imports, despite Israel's duty-free benefits. We know that the quality of Israeli jewelery is too poor to compete with Italian or American made jewelry. Therefore, we feel the MJSA is not representative of our opinion.

We urge you to support the free trade arrangement and not to exclude gold jewelry.

Sincerely,

CORDOVA, INC.

Robert Kagan
RK: ks

EASTERN JEWELRY MFG. CO., INC.
A Tradition of Custom Craftsmanship in Fine Jewelry
39 West 19th Street, New York, N.Y. 10011 • (212) 929-1815

May 21, 1983

To Whom it May Concern;

This letter is in reference to the proposed bill changing the duty free status of the Israeli Jewelry Industry. Our company believes that the Israeli Jewelry Industry is not a threat to the American Jewelry Industry and therefore there is no reason to pass the bill.

Our company is a member of the Manufacturers Jewelers and Silversmiths of America. We were never contacted by the organization regarding this proposed change. As members we feel that it is improper for the organization to request such a change without contacting its members and discussing such a change. Had we been asked we would not have supported this move.

Yours truly,

Kenneth Goldwasser

Kenneth Goldwasser
Manager

KG/ln

(212) 947-3203

Jacques
Creations

ACK CZUCH

243 WEST 30TH STREET
NEW YORK, N.Y. 10001

The Honorable William E. Brock
United States Trade Representative
600 - 17th Street, N.W.
Washington, D.C. 20506

Dear Sir:

We are * MANUFACTURER of fine gold jewelery and we wish to express our support of the proposed free trade area between the United States and Israel.

We find it totally incomprehensible that the Manufacturing Jewelers and Silversmiths of America has suggested that gold jewelery be excluded from the duty-free trade arrangement. As everyone in this industry knows, Italian imports far exceed Israeli imports, despite Israel's duty-free benefits. We know that the quality of Israeli jewelery is too poor to compete with Italian or American-made jewelery. Therefore, we feel the MJSA is not representative of our opinion.

We urge you to support the free trade arrangement and not to exclude gold jewelery.

Sincerely yours,

Jack Czuch

* Fill in manufacturer .✓... retailer ..... importer .....

Adwar Casting Co. Ltd.
EXCLUSIVE CASTING FOR THE TRADE
ALSO NEW LINE OF JEWELRY

HARRY ADWAR
PRESIDENT

243 WEST 30TH STREET
NEW YORK, N. Y. 10001
TEL.: 564-7755

The Honorable William E. Brock
United States Trade Representative
600 - 17th Street, N.W.
Washington, D.C. 20506

Dear Sir:

We are * CASTER & MFG of fine gold jewelery and we wish to express our support of the proposed free trade area between the United States and Israel.

We find it totally incomprehensible that the Manufacturing Jewelers and Silversmiths of America has suggested that gold jewelery be excluded from the duty-free trade arrangement. As everyone in this industry knows, Italian imports far exceed Israeli imports, despite Israel's duty-free benefits. We know that the quality of Israeli jewelery is too poor to compete with Italian or American made jewelery. Therefore, we feel the MJSA is not representative of our opinion.

We urge you to support the free trade arrangement and not to exclude gold jewelery.

Harry Adwar
Sincerely yours,

* Fill in manufacturer ..... retailer ..... importer .....

Member OF MJSA AND I HAVE NOT Been NOTIFID OF ~~[illegible]~~ ANY SUCH ACTION Which I AM STRONGLY AGAINIST

A.L.A. CASTING
COMPANY INC. 71 FIFTH AVE. NEW YORK, N.Y. 10003 TEL: (212) 255 2464 [redacted]

A.L.A. CASTING
OF CALIFORNIA
westcoast office
607 south hill street
los angeles, california
(213) 622-1155

5/15/84

Congressional Committee
Washington D.C

To whom it may concern,

Kindly be advised that A.L.A Casting Co. is a strong member of M.J.S.A.

Dispite the fact above and as a major American Karat/Coin jlr mgf, we feel there id no threat to our business from the Israeli jlry Industry.

Therefore, we find the position of the M.J.S.A. untenable and we urge you to continue israel's duty-free status.

Respectfully,

A.L.A Casting
Ben Cohan

BC: VP

JEWELRY CASTERS ASSOC. • MANUFACTURING JEWELERS & SILVERSMITHS OF AMERICA INC. • THE JEWELERS BOARD OF TRADE • JEWELERS VIGILANCE COMMITTEE INC. • JEWELRY INDUSTRY COUNCIL • JEWELERS SECURITY ALLIANCE

Mr. **Downey**. Thank you very much, and without objection the letters that you have brought will also be appended to the record. Mr. Margolies.

STATEMENT OF ABRAHAM M. MARGOLIES, PRESIDENT, FALICK & MARGOLIES, INC.

Mr. **Margolies**. I am Abe Margolies of Falick & Margolies, a producer and seller of gold jewelry. We buy and sell imported and domestically made jewelry. We are members of the Manufacturing Jewelers and Silversmiths of America.

I am here today because, as a U.S. citizen, I wholeheartedly support the free trade area concept. An FTA with reciprocal duty-free rights will encourage trade between Israel and the United States, thereby aiding our best ally in the Middle East to develop economically. At the same time, it will help U.S. exporters to better compete in Israel's markets, especially with European producers who now have duty-free or reduced duty concessions.

In considering the FTA, I urge you to avoid making any product exceptions, and I especially urge you to not except the product of particular interest to me, gold jewelry. I am aware that the Manufacturing Jewelers and Silversmiths of America has spoken out against including jewelry in the FTA. But I believe their opposition is misplaced.

The benefits that duty-free treatment for jewelry will have on the United States will be significant. I believe that exports of jewelry items from the United States will increase if a free trade area is concluded. Currently, the duty-free benefits are only one way; that is, only Israel benefits. Under the free trade area, the benefits will be reciprocal and the U.S. industry will have added potential to export to Israel.

The United States already exports a certain amount of gold jewelry to Israel. These are generally unfinished items, such as clasps and findings. In 1983, Israel imported about $8 million worth of precious metal jewelry items from the United States. Needless to say, the unfinished items are included in Israel's jewelry production and are then reexported to the United States, and some is reexported to Europe. Under a duty-free arrangement, the U.S. component of Israel's reexports to Europe is likely to increase.

Likewise, much of the gold that goes into Israel's jewelry is purchased in the United States. These purchases benefit not only the U.S. gold industry, but also the U.S. banking system, since many of the transfers in gold are done through the banking system. Practically all of it is.

Increases in Israel's exports, either to the United States, to Europe or elsewhere, will thus benefit U.S. industries other than the precious metal industry.

At the same time, the U.S. jewelry industry will not be affected in any way by duty-free imports from Israel. Israel's jewelry already has duty-free benefits under the GSP. This has not hurt the U.S. industy but has allowed Israel to compete with the dominant supplier, Italy. Israel has made inroads into the U.S. market by copying the styles of Italian jewelry, in particular, rope chain, which is hand made. This type of jewelry is not readily available from U.S. manufacturers and, if Israel did not have the price advantage of the GSP, virtually all rope chain sold in the United States would be of Italian origin.

In short, the U.S. industry has, in my opinion, more to gain than to lose under a reciprocal free trade area. I hope this subcommittee and all of Congress will agree and will give the President the authority to conclude the agreement as quickly as possible.

Thank you.

Mr. **Downey**. Thank you, Mr. Margolies.

Mr. Farber.

STATEMENT OF LEON FARBER, PRESIDENT, FAMOR COS.

Mr. **Farber**. My name is Leon Farber, I am president of Famor Cos., which are comprised of: Famor, Inc.; Merchants Control, Inc.; Regal Diamond Co., Inc., and FX Manufacturing, Inc.

My companies are manufacturers of fine jewelry and we distribute that jewelry throughout the United States. Our main customers are major catalogers, department stores, mass merchandisers, and jewelry stores. We employ approximately 150 people in the processing departments, office and manufacturing plant, so I am very much concerned about anything that will affect my employees.

For the record, I am also part-owner of a jewelry company in Israel—Dov Castings in Ramat Gan. I am active in numerous Jewish philanthropic organizations such as UJA, et cetera. I am presently, and have been for many years, a member of the Manufacturing Jewelers and Silversmiths of America and many other trade associations.

Because of my involvement with the State of Israel and my interests there, I have tried, and am always trying, to do business with that country. However, I find it very difficult to buy jewelry from Israel—basically because of pricing and quality. I find that the jewelry there is not only prohibitive cost-wise, but also not of the caliber that is accepable to my customers in this country.

I am a large buyer of chain from Providence and I cannot, and have not, been able to find the product that I use, in Israel. Conservatively, I would say that we buy approximately 50,000 chains a year—none of which come from Israel, as far as we know. For your information, because I am aware of the pricing, there is a premium of $5 or $6 per ounce over the London price of gold, which is paid by all manufacturers of jewelry in Israel. It is not paid in this country by domestic manufacturers.

I really believe that the jewelry product made in Israel is not a threat to this country nor a threat to jewelry manufacturers in this country. I wish it was, I wish we could tax them, if their product would be good enough to tax, then I would find it wonderful Because then I would give less money to the United Jewish Appeal and I would consider it great, it would mean they were self sustaining.

Hong Kong and Italy are major markets that do compete here, and I think that in considering a loss of duty-free status for jewelry there on those few items that Israel export are a minimal amount.

I think that only 3 to 5 percent of imports are attributable to Israel, and if denied the duty-free status, it might affect 1,000 jobs.

Last year Israel's exports to the United States of gold jewelry was only $96 million.

By contrast, Italy's amount was $517 million.

I believe that it is only 3 percent of the merchandise imported into this country, the Israeli product, in jewelry.

I strongly believe that this committee should consider these factors, and the rest you have in the letter I sent you.

Thank you.

[The prepared statement follows:]

STATEMENT OF LEON FARBER, PRESIDENT, FAMOR COS.

Gentleman: My name is Leon Farber. My business address is 25 West 45th Street, New York City. I am the President of Famor Companies, which are comprised of: Famor, Inc.; Merchants Control, Inc.; Regal Diamond Co., Inc.; and FX Manufacturing, Inc.

My companies are manfacturers of fine jewelry and we distribute that jewelry throughout the United States. Our main customers are major catalogers, department stores, mass merchandisers and jewelry stores. We have approximately 250 active accounts. We employ approximately 150 people in the processing departments, office and manufacturing plant.

For the record, I am also part-owner of a jewelry company in Israel—Dov Castings in Ramat Gan. I am active in numerous Jewish philanthropic organizations such as UJA, etc. I am presently, and have been for many years, a member of the Manufacturing Jewelers and Silversmiths of America and many other trade associations.

Because of my involvement with the State of Israel and my interests there, I have tried, and am always trying, to do business with that country. However, I find it very difficult to buy jewelry from Israel—basically because of pricing and quality. I find that the jewelry there is not only prohibitive cost-wise, but also not of the caliber that is acceptable to my customers in this country.

I am a large buyer of chain from Providence and I cannot, and have not, been able to find the product that I use, in Israel. Conservatively, I would say that we buy approximately 50,000 chains a year—none of which come from Israel, as far as we know. For your information, because I am aware of the price, there is a premium of $5 or $6 per ounce over the London price of gold, which is paid by all manufacturers of jewelry in Israel. This alone represents an additional cost which we do not incur in this country.

I firmly believe that the Israeli product is not a threat to us as manufacturers and that they have a long way to go before they will be a competitive factor in the jewelry manufacturing process. Products from Italy and Hong Kong, which we do import, are more acceptable. I feel the main competition we manufacturers have is from Italy and Hong Kong.

In considering jewelry in the context of the Free Trade Area, this subcommittee and other agencies should balance the effects that loss of duty-free treatment would have on Israel's industry against any possible (unlikely) harm the Free Trade Area might cause to the U.S. industry. Today, approximately 97% of all Israel's jewelry enters the United States duty-free. This is under the Generalized System of Preferences. Including gold jewelry in the Free Trade Area would, thus, not change the duty-free status of Israel's exports; it would only add a degree of certaintly to Israel's marketing situation. There would be a minimal increase in overall jewelry exports. Currently, under the GSP there are five tariff schedule items open to Israel to export jewelry duty-free to the United States. This means that even with the competitive-need limit ceilings, Israel could maintain duty-free treatment and still ship over $250 million worth of jewelry to the United States. Last year, Israel's exports to the United States of gold jewelry amounted to only $96 million. By contrast, Italy's exports to the U.S. were $517 million, 5 times that of Israel's.

That Israel needs duty-free treatment for its jewelry to compete against Italy may be seen from a specific case study. Prior to 1981, imports from Israel of finished rope chain, which enter under Tariff Schedule Item 740.11, received duty-free benefits. In 1980, imports of this item from Israel were over $1.3 million. This exceeded the 50% competitive-need limit and in the following year, Israel lost GSP benefits. The following year, that is 1982, imports from Israel in this category dropped to 1% of total imports. By 1983, Israel was exporting only $308,000 worth, or less than 3%, of this particular item to the United States. Since this was finished rope chain, mostly produced by Italy and Israel, I would suggest that any loss by Israel of its share of the market was captured by Italy, not the United States.

The subcommittee should also bear in mind that eliminating duty-free benefits for even one item, such a gold chain, will have a domino effort on all jewelry production in Israel. Currently, U.S. retailers and merchandisers go to Israel to purchase products produced by numerous Israeli firms. They go to buy gold chain, medallions, findings, and other jewelry items. If one of these items, especially gold chain, were to become uncompetitive in the United States because of increased duties, the cost of traveling to Israel to purchase those items remaining competitive would not be justified. I am told that such domino effect would cost 1,000 jobs in Israel. Needlessly to say, given the size of Israel compared to the United States, a loss of 1,000 jobs would be very significant to Israel's economy.

In conclusion, I urge the Subcommittee to support the Free Trade Area and to refrain from excepting any items gold jewelry or otherwise. The FTA is a noble experiment. It should not be emasculated by elimination products even before it begins.

Mr. DOWNEY. Thank you all very much for your very, very fine testimony. It has been very helpful.

Mr. Frenzel.

Mr. FRENZEL. I have no questions. I thank the witnesses.

Mr. DOWNEY. Mr. Russo.

Mr. RUSSO. I have a couple of questions for the witnesses.

Basically under MFN and the GSP, Israel is allowed to send in almost 90 percent of its products duty-free. The 10 percent that they do not send in duty-free are known as "import sensitive" items. Part of the reason why they do not enter duty-free is because they compete with our own industries.

Don't you think it is improtrant that we attempt to protect some American industries from foreign competition, whether the source is Israel, Japan, Italy, or France? Don't you think we have that responsibility, particularly considering that 90 percent of what Israel now exports enters duty-free?

Mr. FARBER. I certainly think that you have a responsibility to protect American industries, yes. We are all manufacturers in America, with Mr. Margolies and myself. By the same token—I don't know if I am correct—the reason for 90 percent is because there is an export on a certain type of material and if it goes over a certain quota it is duty-able, is that correct?

Mr. DOWNEY. Yes.

Mr. FARBER. If Israel becomes good at a certain product at one time and it would be a factor to affect American industry, as I said before, I wish it would be so on the overall basis.

Mr. RUSSO. What I think some people fail to consider is the precedent we set. I am worried not just about a free trade zone with Israel, I am afraid other countries will say, "Look, we need help, too. We have a problem with MFN, and we have a problem with GSP and we would like to use this new tool, the free trade zone."

But that will have an impact far beyond our allowing duty-free trade with Israel. We will have developed a new method in dealing with overall trade policy. This is a new avenue we will take.

You should be very concerned about the action we take because it is not going to affect just one country. It will affect every other nation that wants to do business in the United States, and industries that want protection under the trade remedy laws, which are now very ineffective, because regardless of whether it is a Democratic or Republican administration, they are poorly enforced.

These countries will get around all the things we now have by setting up this new free trade zone.

I think there are perils ahead of us and we will be dealing with more than just one country. We are not against any particular country.

But we would be setting a precedent. We have never set up in trade policy a comprehensive bilateral arrangement with any other country in the world.

Ms. **Needelman**. Excuse me, may I?

Mr. **Downey**. Surely.

Ms. **Needelman**. I feel protectionism has to be concommitant with responsibility. Many manufacturers in America who are supposedly complaining have established plants in cheap labor areas and have fired their own workers here.

So, that is a double-faced situation. We have to show some responsibility, too. If we are going to do our own thing all the time—you can't have your cake and eat it, too.

There are people who established plants in Hong Kong, they have gone into Peru, there is a chain coming in from Peru. They are inferior things, of course, although I have not seen the Peruvian chain, I don't know really—but I have heard about it.

But these are Americans manufacturing down there. So if they want to have their protectionism here, why are they going elsewhere?

Mr. **Russo**. I can't speak for them because I don't totally agree with what they are doing.

Ms. **Needelman**. I am rounding out the picture.

Mr. **Russo**. I am a fair trader—free trade only exists in the minds of a few people, but in the world, it doesn't exist. Free trade does not exist. Otherwise, all our companies wouldn't be having the problems they are having today for a variety of reasons.

But my concern is, we are developing a whole new concept and we ought to be careful in establishing it.

Mr. **Downey**. I thank the witnesses for their testimony. As I said before, we will put your letters in the record. Thank you.

We will next hear from Heritage International Bank, Donald E. Wolpe, chairman of the board.

STATEMENT OF DONALD E. WOLPE, CHAIRMAN OF THE BOARD, HERITAGE INTERNATIONAL BANK

Mr. **Wolpe**. Thank you, Mr. Chairman.

Mr. **Downey**. If you would summarize your testimony, we would appreciate it.

Mr. **Wolpe**. Mr. Chairman, I have submitted written testimony.

Mr. **Downey**. Without objection, it will be entered in its entirety into the record.

Mr. **Wolpe**. I appreciate the opportunity to appear. I am Donald Wolpe, chairman of the Heritage International Bank in Bethesda, MD. Our bank was chartered by the Bank Commissioner of Maryland 1 year ago.

In December 1983, we opened a representative office in Tel Aviv, Israel. As such, we are the only U.S. bank that has a banking office in Israel.

In fact, Mr. Chairman, we are the only free world bank that has a banking office in Israel.

It is our considered opinion that the free trade area between the United States and Israel should indeed be established, and without delay.

We believe that such an area will serve the immediate and future best interests of both countries. Specifically, the United States enjoys a very substantial favorable trade balance with Israel, and that trade performance should be encouraged and expanded.

Israel has a demonstrable need for U.S. goods and manufacture. There is no question about it. They require in fact manufactured goods from all over the world. We, when we established our office in Israel, have leased a commercial location, a store, in Tel Aviv, exactly opposite the U.S. Embassy.

We desire that this office reflect the personality of the U.S. banks. In fact, we wanted it to be a "Yankee Doodle Dandy" office.

To accomplish that, we wanted to export from the United States, carpet, furniture, furnishings, business machines, all of the equipment and things that would be appropriate to a typical U.S. bank, since we are the only such in Israel.

I must tell you it was absolutely impractical. We could not afford to purchase U.S. goods and ship them to Israel and pay the duty competitively with Israeli manufacture.

Consequently, our own objectives could not economically be served appropriately. To penalize ourselves when we do business in Israel is, to me, self-defeating. That should not be permitted to continue.

Although our office in Israel has been open a period of less than 1 year, the initial thrust of banking opportunities that have come to us indicates a tremendous opportunity for the United States to sell its goods in Israel.

As a matter of fact, because of our proximity to the Exim Bank, we have discovered that U.S.-manufactured goods can be exported with great facility, because interestingly enough, there do exist U.S. subsidies on Exim Bank financing.

That is rightly so. It also is interesting that before such a deal with the Exim Bank can be consummated, there must be proven foreign competition to the sale.

In other words, it must be shown that to justify the U.S. subsidies or participation at the Exim level, there is foreign competition to the sale, and the subsidies apply when the sale goes to the U.S. supplier or manufacturer.

I believe this is entirely appropriate. Every central bank in the world, most every central bank in the world is doing it. They are subsidizing their exports wherever they can get the business.

We want the business, we want to produce the business, we want to make those sales. Israel has an appetite for all sorts of goods. We have established at these hearings today that the United States enjoys a favorable trade balance.

Israel, despite the bromine, their natural resources are limited. They need almost everything. They purchase throughout the world. We should want that purchase to be from the United States.

Finally, Israel, I think as you know, has concluded an agreement with the European Economic Community. They have access to that market. By encouraging U.S. companies to coproduce or establish plants in Israel, U.S. sources can gain entry to those markets.

All of these reasons reinforce in my opinion the need to have this legislation become law. We earnestly support establishment of the free trade area.

We believe that the scientific and technical and commercial attributes affecting both countries will be enhanced. We think this legislation is a source of opportunity for all. Thank you.

[The prepared statement follows:]

STATEMENT OF DONALD E. WOLPE, CHAIRMAN OF THE BOARD, HERITAGE INTERNATIONAL BANK

Heritage International Bank, a Maryland State Bank insured by the Federal Deposit Insurance Corporation, was chartered by the Maryland Banking Commissioner June 27, 1983. A full-service commercial bank, Heritage International Bank received approval of the Maryland Banking Commissioner, the EDIC and the Bank of Israel to open a Representative Office in Israel.

On December 5, 1983, this Bank's Representative Office opened for business in Tel Aviv. The Bank has leased permanent premises in Tel Aviv which are presently being constructed. The permananet office is expected to be completed and occupied in the summer 1984.

Heritage International Bank is the only American bank with an office in Israel. In fact, it is the only free world bank with an office in Israel. As such, this Bank has a substantial interest in the Proposal to Establish a Free Trade Area with Israel.

It is our considered opinion that this proposal should be approved and the Free Trade Area between our two countries established without delay. The Area will undoubtedly serve the immediate and continuing best interests of the United States. Let us enumerate some of the most cogent of those interests which this Bank already recognizes.

1. The United States currently enjoys a substantial favorable trade balance with Israel. That favorable trade performance should be encouraged and expanded. Israel has a demonstrable need for U.S. production to serve widely diverse skills and manufacture and the U.S. has the obvious ability to fulfill a large share of Israel's import requirements. Our personal experience in establishing this Bank's office in Israel confirms that the present economic and tariff relationship between our two countries acts to our mutual disadvantage. As an example. Heritage requires a wide assortment of office furniture, furnishing, office equipment and supplies. We would prefer to have our selections shipped in to Israel from the United States—employing our decorating taste and skills—and utilizing equipment proven by local experience. Because of the extra duty costs imposed on such furniture and equipment, the purchase of American-made products was prohibited. In exercising prudent economic judgment, we had to purchase products manufactured in Israel—which we believe to be less well suited to the image we wished to project than American-made items would have been.

2. Although our Office in Israel has been open but a short time—the inital thrust of banking opportunities indicate a substantial interest on behalf of Israeli firms in acquiring American-made products. We have already financed the purchase of American made computers shipped to Israel for sale and/or lease to Israeli firms. We are currently negotiating financing for the sale of American-made modular homes to Israel importers for erection in Israel. Substantial additional product lines are being sought. Israel has an enormous appetite for what the U.S. can provide. This appetite should be fed an increasing stream of U.S. products and materials so that the U.S. can competitively sell and dominate that Israeli import market.

3. Israel has concluded an agreement with the European Economic Community that allows shipment of Israeli products into the European markets duty-free. This presents a rare opportunity to the American industrialist who can establish an entity or co-production facility in Israel, ship semi-finished U.S. manufactures there for completion and re-export on a duty-free basis into the European marketplace—a

distinct advantage compared to attempting to export directly to Europe over high European tariffs on U.S. goods.

Israel is already demonstrating a tremendous growth in the field of high technology in every mode of scientific and medical enterprise. Israel's achievements in manufacturing and marketing, embracing their technological advances assure both a continuing and escalating requirement for the necessary materials and products which American resources are able to provide. The resultant market potential and an available pool of high tech on which U.S. firms can draw for their own product improvement and development, should indeed favor both countries to neither's disadvantage.

Israel is one of the few countries in the world which presently provides a favorable trade balance to the United States. Indeed, Israel is one of the strongest and most faithful U.S. trading partners.

Thus, we earnestly support the proposed establishment of the Free Trade Area between our two countries confident that the strategic democratic and cultural relationships that weld the United States and Israel together will be immensely strengthened in new and significant economic dimensions. Indeed the technical, scientific, manufacturing skills of our two countries will produce new levels of accomplishment and prosperity that will prove to be a model for all countries and of freedom and opportunity for all peoples.

Mr. DOWNEY. Thank you very much.

Mr. Frenzel?

Mr. FRENZEL. I have no questions. I thank the witness.

Mr. DOWNEY. I have none, either. Thank you, Mr. Wolpe.

Next, we will hear from Solcoor Inc., Laurence Shiff, counsel.

STATEMENT OF LAURENCE SHIFF, COUNSEL, SOLCOOR INC.

Mr. SHIFF. Good morning, Mr. Chairman, Mr. Frenzel.

I am Laurence Shiff, a lawyer in New York, and I am here to speak for Solcoor Inc., in favor of the free trade zone with Israel, and to urge that this committee recommend that Congress authorize the President to proceed to negotiate for such a free trade zone.

You have already heard, and I am certain you will hear further in general terms why such a free trade zone will be beneficial to Israel. You have heard to some degree why it would be beneficial in general terms to the United States.

I will not dwell on the generalities. I am here to speak for Solcoor Inc., specifically, and I have a very narrow focus. Essentially, that is to point out that there are going to be two major advantages for Solcoor Inc., as a result of adoption of a free trade zone.

In essence, my message is that it will help my clients, Solcoor, because Solcoor, as an exporter of American machinery and equipment to Israel will be able to sell a great deal more of American-manufactured products; and second, that it maybe sounds like an incongruity, but if Solcoor, which also is an importer of Israeli goods, is able to import more, it will be able to export more.

To explain that, I will tell you a bit about Solcoor. This is a New York corporation, and a trading company. It was formed primarily to be a purchasing arm for Israel's building trades. It gradually grew, expanded from a purchaser of building materials to wind up buying all kinds of material for other of Israel's industries.

It grew still further to the point where it started selling material manufactured in Israel and recently has started trading worldwide, trading American commodities to countries that are not Israeli connected or Israeli based.

Now, since the major emphasis of Solcoor is importing at the moment—it does about 55 percent of its volume in imports from

Israel—obviously, a free trade zone will help Solcoor earn profits. By helping Solcoor earn profits, we will be able, Solcoor will be, to subsidize—and I know that is a bad word here, but it is on the American end—subsidize its operations in trying to sell and market American commodities in Europe, in the Far East, and now in South America.

Solcoor has been selling and is now contracting for the sale of commodities including fine and bulk chemicals, coal in vast quantities, tin plate, and various other materials manufactureed right here.

As a result, if this free trade area is adopted, Solcoor specifically will be strengthened and will be able to engage in this business.

It is now involving itself in—of going after these very large commodities which involve between $40 and $60 million a year for a period of 5 and possibly with the extension, to 10 years.

That, of course, would be a great benefit to American industry. It certainly would be a great benefit to Solcoor Inc., and many other companies similarly situated.

The second significant area where we feel we will be advantaged is in sale of American machinery to Israel. As I indicated earlier, Solcoor is now a buyer, purchasing arm, for a great segment of Israel's industry and it actually goes out, obtains bids for, and when it can make the deal, hit the right place, buys American-manufactured machinery which it ships to Israel.

The problem has been that over the last 3 or 4 years, Solcoor has been losing most of the bids for these big machines, the machine tools, pipe milling machines, the slitting machines that Israel needs for its steel industry, to its counterparts in the European Economic Community.

Where you wind up with no duty, which, there is virtually none of between the Common Market and Israel, they have the benefit of being able to sell their product for a lower price.

With the advent of the free trade area, we believe that Solcoor will be able to make all those contracts, buy the machinery that it has been asked to quote on in the United States, and ship those to Israel.

The adoption of the free trade zone as a result we believe will be beneficial to American machine and tool manufacturers as well as to Solcoor Inc.

We believe that this is indeed a two-way street.

I would like to respond, if I may, to Mr. Russo, who asked whether, in fact, there was some need for protection for American industry with trade barriers. I am inclined to agree with Mr. Frenzel.

I believe we Americans have sufficient ingenuity, sufficient drive and initiative, sufficient industry to be able to compete on virtually any level anywhere in the world.

Our problem has not been that we have not been able to protect our people here with trade barriers; our problem is that we have not been able to let our people here loose in various other parts of the world, because of the trade barriers that other countries have raised against us.

I believe, as I think Mr. Frenzel probably does, that the dropping of those barriers will essentially create an atmosphere throughout the world that will achieve the highest level of efficiency.

We will produce better, we will compete better, we will wind up benefiting throughout the United States and benefiting the rest of the world. I thank you very much.

[The prepared statement follows:]

STATEMENT OF LAURENCE SHIFF, COUNCIL, SOLCOOR, INC.

Solcoor is a New York trading company which was founded in 1952 principally as a purchasing arm for Israel's building trade. Over the years, our business expanded to include importing Israeli products and marketing them throughout the United States. Over the last five years, our emphasis has broadened still further. We have obtained and continue to seek and obtain agencies and distributorships from American companies for Israel as well as European and African countries.

We are writing to express our strong support for the Free Trade Area between the United States and Israel and to urge this Committee to recommend that that program be adopted.

We believe, that adoption of such a program would achieve, through a sharp, carefully circumscribed method, two goals of the United States without countervailing injury to American industry, namely strengthing Israel's economy and fostering sales of American products abroad.

We are certain that others who support the Free Trade Area will express in great detail the benefits that such a program will have for Israel's economy. Our emphasis will be on the benefits such a program will have to American industry in general and our own sales in particular.

Creation of such a Free Trade Area would strengthen our company by facilitating the sale of products we import from Israel. That would strengthen our own base in New York and assist us in increasing the other aspect of our business, which is representation of American companies and the sale of American products both to Israel as well as to Europe, and other parts of the world, an aspect of our business which has grown over the past few years and which we hope will grow still further.

The importance of such strength and continued ability to sell American products abroad cannot be understated. Indeed, we are even now negotiating contracts for sale of American commodities, machinery and other products for shipment to countries in Europe and Africa which, if we are successful, will provide a respectable (nine figures) volume of exports for American industry.

Further and more directly in point, with the Free Trade Area, we would be better able, with no duty on American products, to compete with European suppliers in selling American machinery to Israel. We were unfortunate enough to lose out on some machinery deals over the last two years because of the favorable treatment that suppliers in the Common Market were able to obtain as a result of the special arrangement between Israel and the Common Market, allowing reduced duty (and ultimately no duty) on virtually all products traded between Israel and the Common Market.

Adoption of a Free Trade Area in the United States would put American machinery and equipment on an equal or more favorable footing with those of the Europeans and enable us, as a company, to achieve more success in sales of American products to Israel. We would thus be able to overcome the advantage that Common Market manufacturers have obtained over the last few years.

We believe the Free Trade Area, tailored as it would be to Israel, alone, is the best method to achieve the goals of the United States that we have mentioned above without opening a flood-gate of imports from around the world. We believe it would be the best avenue to assist our own sales and profitability as well as continued viability in the United States.

We therefore urge this Committee to recommend adoption of the Free Trade Area.

Mr. DOWNEY. Thank you, Mr. Shiff. Do you have any questions, Mr. Frenzel?

Mr. FRENZEL. I thank the gentleman for interpreting my policy, and for his testimony. I do believe that American management and American labor is capable of competing anywhere. We will not win every time. We will win more than our share.

Thank you very much.

Mr. SHIFF. I agree.

Mr. DOWNEY. We will next hear from the First Family of Travel/General Tours, Cord D. Hansen-Sturm.

STATEMENT OF CORD D. HANSEN-STURM, VICE PRESIDENT, FIRST FAMILY OF TRAVEL

Mr. HANSEN-STURM. Mr. Chairman, members of the committee, I am a vice president of First Family of Travel, an alliance of tour operators doing business with Israel, among other countries worldwide.

I wish to make a brief oral statement in favor of a limited free trade area, but I wish also to raise a few questions about how trade in services will fit under a United States-Israel limited free trade area.

I have submitted a much longer statement which discusses in greater detail the case for a tailored United States-Israeli free trade area which includes a subsidiary tourism agreement.

Free trade, as other than a Utopian ideal, is only possible when there is political and social and economic union. Israel is not becoming the 51st U.S. State, so we are really talking about a very limited form of free trade area.

Mr. Russo said earlier today that even this is so radical an arrangement that the United States is not yet a member of a limited free trade area. Some have described the Caribbean Basin Initiative as a one-way free trade area, but the reality is that most manufactured goods, services and commodities from much of the southern minicounties, which are really competitive with U.S. producers, were excluded.

One of the historically new and untested ideas under investigation is a limited extension of the traditional free trade area arrangements in goods to include services, also. If such principles as national treatment and free flow of information are included, a U.S.-Israel free trade area including services is probably a good idea.

A better link than now exists should connect trade and services with trade and goods. However, unlimited free trade in travel and other services would be destructive. I will address this problem and a related solution.

A bilateral United States-Israel tourism agreement such as the United States concluded with Egypt in 1983, negotiated in conjunction with a free trade area, would establish a fair trade policy bridge that would contribute to Israel's foreign exchange earnings.

Improved people-to-people communication over an expanded travel system would contribute substantially to overall bilateral trade performance and to cultural and political understanding.

The travel medium, along with telecommunications and print media, provides the essential information infrastructure that supports all trade and other social discourse.

I wish to make a few observations about the problems of extending free trade area concepts to include services. There is a no-homework problem. The U.S. Trade Representative and the State Department have been lax about compiling data with which trade negotiators, Congress and the public can judge the significance of this precedent setting free trade project.

There are real problems in assembling data on services trade, but they are not insurmountable, and for the largest single category in bilateral United States-Israel trade, tourism, data is available. It has been left uncollected and unanalyzed, however, by the policymakers who propose radical new rules to govern that trade.

To me, this seems unprofessional and careless. How can they pioneer new trade rules when they have not even bothered to define and describe the trade such rules are to govern? It is impossible to discuss intelligently the impact on tourism of limited free trade area arrangements with the USTR and State Department professionals most involved in the project, because they do not have a grasp of what comprises United States-Israel travel trade.

Israel, by the way, like Egypt, has an oil-poor economy in which tourism is the largest export sector.

There is an old shoe problem. Because the homework is undone, the U.S. Trade Representative can only approach this project as a practical exercise in the adaptation for services trade of generally accepted definitions and principles which apply to trade in goods of a free trade area.

"Here are several old shoes, now let's find out how we can shoehorn services industries into them." If the shoe fits, this is the best solution to the immediate problem and to the need for a precedent to be applied to Canada and to other free trade areas.

If the shoes do not fit, however, if trade in services differs substantially from trade in goods, then forcing services issues into old trade shoes will distort services markets rather than improve them.

From the beginning, there have been problems in defining the services sector for the purpose of an agreement, and more specifically, defining what is the travel and tourism industry. I wish just to mention a couple.

The first is that much services trade has a time dimension which trade in goods does not have. Travel and consulting industries, for example, require the service to be dispensed over a long period of time.

Traditionally, free trade areas do not take this into consideration.

The time dimension and the information function are important to services trade. The information function which I will not get into here, other than to say that the travel medium along with the media of print and telecommunications comprises the information infrastructure, has an extremely important role nowadays in all U.S. services trade. The information industry is comprised really of sub-industries like travel, tourism, telecommunications, banking, insurance and others, that deal in information.

Modern information economics tells us that information is a resource, a trade item just as are goods or other services. It is something which has not been dealt with yet in any free trade area, and should be dealt with in this one.

I have submitted a very long paper for the record which discusses tourism industry in general, and the rationale for a fair trade compromise in the matching of the highly regulated tourism infrastructure in Israel with the deregulated U.S. tourism infrastructure.

Thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF CORD D. HANSEN-STURM, VICE PRESIDENT, FIRST FAMILY OF TRAVEL

Mr. Chairman, Members of the Committee, this testimony discusses the case for a "tailored" U.S.-Israel Free Trade Area which includes a subsidiary Tourism Agreement.

United States and Israeli government trade negotiators met mid-May 1984 to discuss a free trade area arrangement between the two countries. Free trade as other than a utopian ideal, of course, is possible only when there is political and social as well as economic union. Israel is not considering statehood, so we are really talking about a very "limited" form of Free Trade Area. Even this is so radical an arrangement that the United States is not yet a member of any Limited Free Trade Area. Some have described the Caribbean Basin Initiative as a One-Way Free Trade Area, but the reality is that most manufactured goods, services, and commodities in which the southern mini-states are really competitive with U.S. producers were excluded.

The scope and comprehensiveness of the radically new limited free trade area under discussion demand close public inspection. Precedents are being discussed which might not seem important in trade between a small Mid-Eastern developing economy and the giant and dominant North American developed economy. However, precedents have a way of slipping into future, larger projects like the proposed U.S.-Canada Free Trade Area.

One of the historically new and untested ideas under investigation is a limited extension of the traditional free trade area arrangements in goods to include trade in services also. If such general principles as free access, national treatment, and free flow of information are included in such an extension to the service sector, a U.S.-Israel Free Trade Area including services is probably a good idea. A better link than now exists should connect trade in services with trade in goods.

Unlimited free trade in travel and some other services, however, would be destructive. This paper includes discussion of this problem and a related solution.

A bilateral U.S.-Israel tourism agreement (such as the United States concluded with Egypt in 1983), negotiated in conjunction with a free trade area, would establish a fair trade policy bridge that would contribute to Israel's foreign exchange earnings. Improved people-to-people communication over an expanded travel system would contribute substantially to overall bilateral trade performance, and to cultural and political understanding. Travel, along with telecommunications and print media, provide the essential information infrastructure that supports all trade and other social discourse.

The following comments and observations about the problems of extending free trade area concepts to include services are based on the perspective of the travel industry which is the largest single factor in services trade in general and in U.S.-Israel trade in particular. The generalizations included here apply to larger categories of services than just the travel sector (and its subcomponents including transportation) and some of the generalizations apply to all categories of services.

NO HOMEWORK PROBLEM

The United States Trade Representative and the State Department have been lax about compiling data with which trade negotiators, Congress, and the public can judge the significance of the Free Trade project. There are real problems in assembling data on services in trade—but they are not insurmountable, and for the largest single category in bilateral U.S.-Israel trade, tourism data is readily available.

It has been left uncollected and unanalyzed, however, by the very policymakers who propose radical new rules to govern that trade. To me, this seems unduly unprofessional and careless. How can they pioneer new trade rules when we have not even bothered to define and describe the trade such rules are to govern? It is impossible to discuss intelligently the impact on tourism of Limited Free Trade Area arrangements with the USTR and State Department professionals most involved in the project because they do not have a grasp of what comprises U.S.-Israel travel trade. Israel, by the way, like Egypt, has an oil poor economy in which tourism is the largest export sector.

OLD SHOE PROBLEM

Because the homework is undone, the United States Trade Representative can only approach this project as a practical exercise in the adaptation for services trade of generally accepted definitions and principles which apply to trade in goods in a free trade area. "Here are several old shoes, now let's find out how we can shoehorn services industries into them." If the shoes fit, this is the best solution to the immediate problem and to the need for a precedent to be applied to Canada and to other free trade areas. If the shoes do not fit, however, if trade in services differs substantially from trade in goods, then forcing services issues into old trade shoes will distort services markets rather than improve them.

DEFINITIONAL PROBLEM

From the beginning there has been a problem in defining the services sector for the purpose of an agreement, and more specifically, defining what is the travel and tourism industry. The United States National Study on Services which was prepared for the OECD and the GATT in 1983, describes the travel industry as a major services industry with subsectors including transportation, lodging, food service, entertainment, and personal goods and services. Anyone dealing with an international trade agreement must have in mind a mental picture of what are services transactions and how general principles should be applied to them.

The definitional problem has deep bureaucratic roots. For example, the State Department, which is strong in the civil aviation subsector of the travel and tourism industry, appears to have told USTR negotiators that international aviation arrangements must remain compartmentalized and not be meaningfully included in the Limited Free Trade Area, or any Tourism Agreement negotiated as an annex.

In this manner, tourism as a trade factor has been rendered invisible in the free trade area project. No data has been collected to compare its relative importance to U.S.-Israel trade, and the State Department does not want to dilute its bureaucratic control over aviation although it is only one part of a highly integrated and interdependent travel system. The result is that both USTR and State Department officials wave off the largest single industry in U.S.-Israel trade which has greatest promise for further development. They are not sure what tourism trade is but they are sure it is "not my department."

THE INVESTMENT VERSUS TRADE PROBLEM

Further confusion of definition arise in discussion of investment and trade. Ownership of plant and delivery systems has been excluded from the working definition of trade in services for this project. If an American company licenses its service in Israel, for example a major hotel chain, a rental car company, a credit care operation, then under this definition the travel service provided to the American traveler would be an Israeli export and the management service to the Israeli licensors would be a U.S. export. But, surely, if an American hotel company or rental car company or travel company or credit card company did not license but invested in a subsidiary operation in Israel, the services they provide for American travelers still would be Israeli exports and the return on capital would be an American export. The attempt to differentiate between an investment and trade is less useful and even more confusing in trade in services than it is in trade in goods.

THE TIME DIMENSION IN SOME SERVICES TRADE PROBLEM

Free trade areas traditionally focus on removing obstacles at the border which restrict trade in goods. Conceptually, the restrictions such as tariffs and quotas apply at that moment the good crosses an international border. Free trade area goods transactions normally have not had an extended time dimension. However, services are heavily dependent on people crossing borders and remaining for a period of time to provide or consume the service. Consulting is an example of a service provided on the spot over time in the importing country. Travel is an example of a service consumed over time in the country exporting the service.

The time dimension is extremely important to travel. Draft definitions in the early stage of this project specifically mentioned transportation as an infrastructure industry, but did not mention lodging or food service. However, the travel industry does not merely dump people at the border, but sustains them during their temporary stay by protecting them from the elements, feeding them, entertaining them, and otherwise providing for their human needs. Transportation to the destination normally comprises only one-fourth of the travel export; more money normally is spent on lodging and food, and something also on entertainment and personal goods and services.

Probably this confusion about when the transaction takes place led to the inclusion in a draft of transportation, which is a subsector of travel trade, without mentioning the larger category travel, or its subcategories—lodging or food service or entertainment or personal goods or services.

Transportation between countries is too easily thought of in goods terms as depositing the good or service at the border; as providing "place utility", that is, moving a good or a person from point "A", where it is not wanted, to point "B", where it is wanted or needs to go. However, people performing and consuming services do not normally get off airplanes with hiking boots, tents, and rations, but continue to depend on the travel infrastructure to support them during their stay in the travel exporting country.

THE INFORMATION FUNCTION IN SERVICES TRADE

The extended time dimension of travel and many other services differentiates them from goods transactions. Someday, classical trade theory will be amended in order to take into consideration the extended time factor and other unique qualities of services. At this stage, the services trade "movement" is trying to define services trade in classical trade terms. The effort is severely limited because trade history was developed on a steam engine model of the international economy. However, modern information economics teaches us that in an informational economy. However, modern information economics teaches us that is an information society, information along with energy and matter is an economic resource. Information is the principal economic resource processed by the services industry. The travel medium, along with the media of print and telecommunications, comprises the information infrastructure of international trade. How do we approach information flows in a limited free trade area which stops far short of political union?

THE FOREIGN TRADE PRINCIPLE OF FREE INFORMATION FLOWS

United States information and telecommunications policy, according to the February 27, 1983 report to Congress by the U.S. Department of Commerce Assistant Secretary for Communications and Information, is based on two fundamental principles the first principle is free trade, and the second is free information flows.

". . . U.S. telecommunications and information policy has been moving with reasonable consistency in a greater degree than other nations toward reliance on two broad principles: free flow information and free competitive market enterprise. Thus, in general, individual policy decisions formulated to achieve long-range goals in international telecommunications and information, reflect efforts to: enhance the free (without restriction or control) flow of information across national borders with limited exceptions condoned only for the most compelling reasons; and promote an international environment for the provision of telecommunications and information facilities, services, and equipment—and for the production and dissemination of information itself—in which maximum reliance is placed on free enterprise, open and competitive markets, and free investment with minimum direct government involvement or regulation.

". . . the United States persistently has called for worldwide recognition of the principle of free flow of information with minimum government interference. In addition to its economic benefits, free flow of information in the 'marketplace of ideas' serves to promote cultural development and to strengthen political liberty and effective self-government.

"Reliance on the marketplace and free flows of information establishes basic guidance for formulating policy."

The information sector of the economy includes most of the services sector of the economy. The principle of free flow of information applies not only to the mass media and telecommunications, but to insurance, financial activities, professional services, computer software, motion pictures, consulting, engineering, banking, travel and, no doubt, other services. The principle is vital to international services policy and to any coherent concept of a free market.

DEREGULATION VERSUS REGULATION TOURISM PHILOSOPHIES

In recent times, the United States has approached the issue domestically with a policy of deregulation, but we cannot deregulate the rest of the world in telecommunications or transportation, as most other countries treat their information infrastructure systems, including education and postal services, as public utilities. We simply do not possess the power to undo in other countries what we until quite recently believed ourselves was the natural way to provide infrastructure services to the economy. There is an accepted trade-off inherent in the objectives of free trade and free information flows. In the words of the report "Long-Range Goals in International Telecommunications and Information, An Outline for U.S. Policy", "in some cases, however, achieving U.S. goals requires limited government intervention. Where market structure necessitates some governmental oversight (e.g. natural monopoly), where close cooperation between the United States and other sovereign states is vital (e.g. for the allocation of radio spectrum), or where the unfettered marketplace will not necessarily achieve important ends (e.g. in matters of national security or foreign policy), governments must intervene in telecommunications and information activities."

"FAIR TRADE" SERVICES TRADE POLICY BRIDGE

In the case of Israel, transportation as well as telecommunications is viewed as a public utility, the maintenance of which is important not only because of a "natural monopoly", but for national security and foreign policy reasons. U.S. international aviation policy has been based since passage in 1979 of the International Aviation Deregulation Act, primarily on the objective of deregulating the global aviation system. A compromise between the U.S. unregulated market and the Israeli regulated market is essential in order to promote a more useful objective which is the free flow of travel and information, the maximization of information services in the two countries.

The concept emerges of a "policy bridge" between the Israeli and the United States services economies. The United States has a mature, highly developed, technologically advanced and huge services economy. Israel is somewhere behind on the developmental spectrum in some services areas. In the field of travel, Israel at this period of time, enjoys a comparative advantage in that there are more Americans with incomes permitting them the discretionary purchasing power to vacation on the other side of the world. Thus, travel statistics show that the proportion of business travel to pleasure travel to the United States from Israel is much higher than the proportion of business to pleasure travel from the United States to Israel.

The U.S.-Israel Limited Free Trade Area should not attempt to create an unregulated utopia, as this would not serve the purposes of Israel or the United States. But, rather, it should seek compromise solutions between the Israeli and the U.S. approaches to regulation which maximize trade in services and the flow of information.

THE GNAT ON THE TAIL OF THE ELEPHANT

The need for a "tailored" free trade area in services is heightened by the relative sizes of the Israeli and U.S. economies. If Canada is a mouse in a North American stall with an American elephant, then Israel is a gnat on the elephant's tail. Provision must be made that the gnat is not squashed when the elephant sits down, which it does regularly.

POLITICAL OBJECTIVES IMPLY TRADE BIAS TOWARD ISRAEL

Also, one should not forget that the U.S.-Israel free trade area is designed to meet political objectives, to strengthen a friendly outpost in the turbulent and strategically vital Middle East. There is no natural affinity between the Israel and U.S. economies that would single it out as the first free trade area into which the United States enters. A relationship with Canada or the Common Market would be a more logical first step on the ground of economic compatibility.

DEVELOPMENT OBJECTIVE OF TRADE AGREEMENT

The primary purpose of entering into trade negotiations is to shore up Israel's flagging economy in part to reduce its dependence on direct U.S. development grants. Trade policy, in this instance, does not serve only its usual heightened exports objectives, but that of the broader foreign policy need for U.S. economic resources to ensure the viability of Israel as a stable strategic partner in the Middle East. A near-term objective, therefore, is to encourage a net flow of resources from the private sector to substitute for the flow of government aid grants. This is very different from traditional thinking about a free trade area in terms of what is in it for us.

This point of view is extremely important in the case of travel and tourism. Subsectoral trade agreements such as for civil aviation tend to be based on narrow and short-term considerations on how to increase American air carrier market share at the expense of Israeli market share. A tourism agreement should be negotiated at this time as part of the larger trade and investment package with full knowledge and intent that it will increase all travel but expand the travel earnings gap and perhaps maintain or even increase Israeli market share so that there is an improved flow of American and European tourist and travel investment dollars to Israel in the next decade. Of course, U.S. travel jobs and earnings will increase also from an expanded bilateral travel market.

TOURISM AS AN ENGINE FOR ISRAEL DEVELOPMENT

Israel and the United States are on different levels of different development paths. At this stage, Israel enjoys a comparative advantage in tourism. This natural destination for American travelers (comparatively wealthy in relation to Israeli travelers) can be enhanced in a tourism agreement which also lays down principles and creates an institution whereby Israeli travel to the United States (in preference to other long haul destinations) is encouraged and facilitated. In the short and medium run, travel expenditures and private tourism investment dollars may be expected to flow to Israel to help that country become self-sufficient. Israel, like Egypt, has a travel and tourism led foreign trade sector. The travel and tourism engine will continue to pull Israeli light industry and agriculture into higher production levels by creating demand, and foreign exchange earned will be spent on other development objectives.

CULTURAL OBJECTIVE

Israel and the United States are sometimes described as drifting apart in a cultural sense. Travel has been touted as a force for peace and understanding and often overstated as a cultural leveler, but it cannot be denied that strong travel and tourism links create cultural and political ties between nations. If Israel is strategically important to the United States, this cultural and political dimension of travel should place it on an even higher priority foreign policy level than its natural commercial leadership would already require.

A TOURISM AGREEMENT AS A TRAVEL POLICY BRIDGE

A tourism agreement should in some fashion encompass the bilateral civil aviation agreement. At a minimum, it must moderate it. U.S. aviation policy currently is based on the narrow principle of free trade, of "exporting" our deregulated airline system to Israel, whereas a meaningful U.S.-Israel travel policy must include the objectives of economic development and improved information flows as well. Israel does not have the same enormous internal or foreign transportation market as the United States which is necessary to support several major airlines competing from several regional domestic hubs. Israel, like European countries, views its airline more as a public utility. The two transportation philosophies clash and a compromise must be worked out which is most beneficial to the entire travel system and the trade and cultural systems it supports.

Either policy, if followed to the extreme, would create discord between our two nations, and damage the industries we need to enhance. At the one pole, the U.S. deregulation policy would lead to skimming and predatory competition which would damage the Israel national airline and introduce additional uncertainty into the market. These factors have discouraged tour operators and individual discretionary travel to some other developing countries. At the other pole, the nationalistic Israeli public utility policy would exclude U.S. carriers and charter flights which add important capacity, variety, and marketing power to the U.S.-Israel travel system.

A compromise system is not the "free trade", but the "fair trade" solution. It will best nurture travel and serve U.S. and Israel economic and other foreign policy objectives. A tourism agreement, in conjunction with civil air and consular agreements, would establish a better policy bridge than now exists between the immense deregulated and highly developed U.S. domestic travel system and, by comparison, the miniscule, regulated and less developed Israel travel system.

URGENCY FOR A TOURISM AGREEMENT

If commercial negotiations are a high priority to boost American investment in and imports from the flagging Israeli economy, then the highest priority logically should be placed on those industry sectors which will produce the greatest investment and import flows. Travel and tourism is the single most promising sector.

Nations have a limited attention span for foreign trade negotiations. At the conclusion of forced pace free trade area negotiations, politicians will take a bow, and bureaucrats will sign in relief and take a deserved vacation. Once out of the limelight, travel questions will sink out of sight to their normal "invisible" international balance of payments account status. Because the free trade area negotiators do not have the same theoretical tools, the hands-on knowledge, the organization, even the data to deal with travel "infrastructure" as they do with trade in goods and grains, it will be easy once again to sweep travel under the rug. To be more useful, a U.S.-Israel travel and tourism agreement should pioneer as a subagreement of a limited free trade area and not follow the path of least resistance taken in some earlier tourism agreements. It should be negotiated in the limelight and not in the shadows.

Spurred by prolonged international recession and the foreign debt crisis, developing countries increasingly are inquiring about tourism agreements with the United States. If the U.S. and Israel do not act now, other countries will take precedence.

THE TRAVEL AND TOURISM INDUSTRIES IN THE UNITED STATES AND ISRAEL—BACKGROUND

The travel industry is now the second largest service industry in the United States having generated in 1982, $194 billion in expenditures.

The second largest private employer in the nation, the industry directly employs 4.5 million Americans in every skill level and provides another 2.2 million supporting jobs. In addition, travel and tourism was responsible for 27% of all new jobs created in the United States over a three-year period.

Tourism is the United States third largest source of export income and our largest services sector export (excluding U.S. foreign investment income). Last year, international visitors to the United States spent $11.3 billion and supported 300,000 jobs. Over 20 million international visitors arrived in the United States in 1982 alone, and for every 54 international travelers who visited the United States, one new job was created. Clearly, tourism is a major and growing international trade activity.

Tourism plays an even larger role in the economy of Israel where international tourism is the single most important sector. In 1983, 1.17 million foreign travelers spent over $1.2 billion in Israel of which about $1 billion (80%) was retained in revenues. Israel's national airline contributed $200 million in international revenues to the international travel accounts.

BACKGROUND ON UNITED STATES-ISRAEL BILATERAL TOURISM RELATIONS

Travel and tourism is the largest single category in bilateral U.S.-Israel trade.

In 1983, 350,000 Americans visited Israel and spent approximately $550 million there. In 1982, 118,000 Israelis visited the United States spending about $135 million here.

In 1982, according to U.S. Immigration and Naturalization Service Data, 399,878 passengers flew between the United States and Israel on U.S. and Israeli airlines, of which 64% were U.S. citizens, 37% flew U.S. flag carrier, and 13% flew charter. In 1981, of 384,107 passengers, 61% were U.S. citizens, 29% flew U.S. flag, and 14% flew charters.

U.S. travel to Israel is predominantly recreational.

The U.S.-Israel travel market is heavily ethnic. About 70% of Americans traveling to Israel in 1983 were Jewish. The best prospects for further expanding travel beyond the 350,000 annual level lie in the non-ethnic general market.

U.S. Travel to Israel

1984 (projected)	400,000
1983 (actual)	350,000
1982	265,000
1981	271,000
1980	285,000
1979	298,000

Source: Israel Government Tourism Information Office.

A UNITED STATES-ISRAEL TOURISM AGREEMENT SHOULD IMPROVE ON THE UNITED STATES-EGYPT TOURISM AGREEMENT

The U.S. tourism agreement with Egypt, a neighboring Mideastern country also heavily dependent on tourism, was signed in February 1983.

Israel has tourism agreements with Egypt, Greece, and Italy, whereas the United States is Israel's largest tourism partner with the best prospects for further development.

With the constant fighting in Lebanon, Iran and Iraq, and terrorist acts occurring throughout the region—there is a widespread "war zone" mentality in the USA that travel to the area is unsafe. A government-to-government bilateral agreement on travel and tourism would suggest stability and security, and imply a "special" U.S.-Israel relationship to the prospective traveler. There are only four other U.S. tourism agreements in existence, with Mexico, Egypt, China, and the Philippines.

The travel infrastructure between two nations performs a vital and basic communications function, that of shuttling human minds across national borders. Diplomacy, education, science, commerce, industry, culture—all depend on the face-to-face exchange of information among people. Improved travel conditions will benefit the entire social superstructure.

The U.S.-Egypt tourism agreement obligates both governments to a policy of bilateral facilitation; cooperation in the World Tourism Organization; and cooperation in education and training, tourism statistics and research, exchange of information, and resolving customs problems.

Travel documentation, conditions for travel investment, currency regulations, taxation (such as on conventions), joint marketing in third markets, cultural exchange, environmental protection, travel trade transborder data flows, and reservations systems bias and the functions of National Tourism Organization Representations, are additional topics the United States and Israel might wish to explore.

If at all possible, given strong bureaucratic inertia, the tourism agreement should contain provisions that link it to the existing civil aviation agreement in order to incorporate aviation policy into the broader considerations of the travel system and its role as information infrastructure for the bilateral political-cultural economy.

Another concept not yet incorporated into U.S. tourism agreements is the idea of regional marketing. Israel and Egypt are reluctant passengers in the same Mediterranean tourist boat. Both countries possess unique cultural attractions and relatively well-developed travel infrastructures. Their major problem in the next decade is not domestic capacity, it is foreign marketing. Egypt already caters to the general tourist, while Israel is still heavily dependent on ethnic travel. Both Israel and Egypt would benefit by cooperative marketing of Israel-Egypt tours, especially for long-haul tourists from Japan and the United States. The catalyst, the partner in regional marketing could be the United States. Both nations receive billions of dollars annually in development assistance which mostly goes into building plant and training, some of this going to the travel sector. A shift of a fraction of one percent of U.S. development assistance funds into regional tourism promotion schemes would do more to improve the export performance of both Israel and Egypt than a far greater increase into traditional development assistance projects.

Mr. DOWNEY. Thank you, and your report will be submitted in its entirety in the record.

I also would ask unanimous consent that the record be kept open for 5 days for purposes of augmenting the record, and also challenging and rebutting points made before.

Mr. Frenzel, do you have any questions?

Mr. FRENZEL. I do not, Mr. Chairman.

Mr. DOWNEY. Mr. Russo?

Mr. RUSSO. No, Mr. Chairman.

Mr. DOWNEY. Thank you, Mr. Hansen-Sturm.

Mr. Herzstein?

Mr. FRENZEL. Are you going to vote?

Mr. DOWNEY. I think we will have to.

I think what we might do, then, I may just miss this one.

Mr. RUSSO. We have another 5-minute vote after this.

Mr. DOWNEY. How long do you need?

Mr. HERZSTEIN. Ten minutes.

Mr. DOWNEY. I think we better come back.

The committee will be in recess for 15 minutes.

[Recess.]

Mr. RUSSO [presiding]. The subcommittee will come to order.

Mr. Herzstein, on behalf of Mr. Downey, let me apologize for the delay and for the fact that he was unable to come back here at this particular moment. He has a few other things he has to be working on right now.

We should not have a vote right away, so you may proceed as you wish.

STATEMENT OF ROBERT E. HERZSTEIN, FORMER UNDER SECRETARY OF COMMERCE FOR INTERNATIONAL TRADE, FOR HIMSELF AND WILLIAM D. EBERLE, FORMER U.S. TRADE REPRESENTATIVE

Mr. HERZSTEIN. I was scheduled to appear here with former Ambassador William Eberle this morning, and he sends his regrets. He is out of the country today.

I am testifying on the basis of my personal experience as former U.S. Under Secretary of Commerce for International Trade, and years of work in private practice, where I have been involved with U.S. trade policy and import relief laws.

I will summarize my testimony, if I may. I sense that there are two concerns that have arisen in the discussion of this bill, Mr. Chairman.

One is, what kind of precedent will it set for U.S. trade policy if we negotiate a free-trade agreement with another country?

Second, how do we protect U.S. industries that may be vulnerable as a result of the duty-free treatment that is established?

I will address each of those points, if I may. On the first question, it seems to me that a free-trade agreement is a logical and natural next step in United States-Israel economic relations. It would not set an adverse precedent because the conditions that exist in the bilateral relations between these two countries are particularly healthy and have developed in a way that would commend the free-trade agreement as the next step to follow.

We have been operating between the United States and Israel for some years under the principles of GATT, and for almost 10 years under the GSP. As a result of these two regimes, we have developed a sound two-way relationship between the two economies.

We have an open, competitive environment in both countries. U.S. products enjoy ready access to Israeli markets. U.S. companies can easily establish themselves there, and there is a great deal of exchange not only in goods, but in services, technology, and investment.

Thus, it seems rather clear that GSP has yielded precisely the result that we all hoped it would when it was adopted in 1974. It has assisted the development of the Israeli economy for participation in two-way world trade.

This intended reciprocal effect of GSP has not always been achieved. When we are lucky enough to achieve it in our relations with one of the beneficiary countries, it seems to me that the sensible next step is to move forward in the liberal direction.

In other words, turn the more or less one-way duty-free benefits that are available under GSP into a full-fledged and more enduring two-way free-trade relationship.

The alternative, of course, as a beneficiary country develops itself to the point where it is able to participate fully in the world market, is to take away the one-way GSP treatment. But that seems to me a step backward, when you can move forward, and you have the conditions that make it sensible, it seems to me that it is wise to do so.

United States-Israeli trade relations are now approaching the point which has been the objective of American trade policy and the GATT throughout the post-World War II era.

A free trade area would recognize and consolidate these achievements.

My second point is addressed to the question of U.S. industries which might be vulnerable to injury from increased imports from Israel. I think the first thing I would have to say about that is that this is likely to be a very limited problem, if indeed it occurs at all.

I understand the International Trade Commission report is about to be published, or has been published and made available at least within the executive branch. It is not publicly available, but it is my guess that it is likely to show that there is only the smallest problem of U.S. industries threatened by the proposal for a total elimination of U.S. duties on imports from Israel.

Under those circumstances, the opportunity to establish a genuine free trade area need not and should not be encumbered by a list of exceptions that would diminish the benefits of the agreement for both countries.

If it appears necessary, the U.S. Trade Representative could address this problem of specific vulnerable industries by placing a specialized safeguard mechanism of some kind in the agreement itself.

I am not saying that this is necessary, but I am saying it would be a much more discrete way to handle the problem of the various U.S. industries that have complained to you about their vulnerability than would the alternative of establishing across-the-board exceptions for certain industries in the agreement, which in effect keeps the two countries from being able to enjoy the duty-free treatment for anything in those industries.

Under this specialized safeguard mechanism, when there is a determination that increased imports from Israel are an important cause of injury to a U.S. industry, then the U.S. Government could be authorized to suspend the duty-free treatment and return to the regular MFN rate for a period of time.

These determinations could be made on a very rapid schedule, probably somewhat more rapidly than that which prevails under the section 201 safeguard mechanism presently in our law.

I feel that this kind of expedited safeguard measure would give ample protection for those industries that may have—and I stress "may"—may have vulnerability, but it would not create an unnecessary and harmful exclusion from the two-way open trade arrangement.

Those are the basic points I wanted to make.

[The prepared statement follows:]

Statement of Robert E. Herzstein, Former Under Secretary of Commerce for International Trade, and William D. Eberle, Former U.S. Trade Representative

Thank you, Mr. Chairman, for the opportunity to testify on the proposed Free Trade Area between the United States and Israel. I was orginally prepared to testify on this important trade issue with Ambassador William D. Eberle, former Special Representative for Trade Negotiations, but regrettably he is out of the country today.

The establishment of a Free Trade Area between the United States and Israel is a logical and natural next step in the development of economic relation between these two countries. The Free Trade Area would complete the progression toward free trade which started when both countries participated in the GATT and its tariff reduction rounds, and which proceeded further when the U.S. extended GSP benefits to Israel. By demonstrating concretely how our past trade liberalization programs can in fact lead to genuinely open markets, the Free Trade Area will provide a stimulus for the development more generally of a healthy international trading system based on the principles of free markets and comparative advantage. And, while benefitting the American exporting community, the Free Trade Area would create only minimal costs or risks to domestic sectors of the American economy.

I. THE FREE TRADE AREA IS A LOGICAL AND NATURAL NEXT STEP IN AMERICAN-ISRAELI ECONOMIC RELATIONS

A. There is a sound two way relationship between the two economies. Interaction among the industries of both countries is competitive, but fair and mutually beneficial.

Currently ninety percent of Israel's exports to the United States enter duty free under either the Generalized System of Preferences or Most Favored Nation rates of duty. Twenty-three percent of Israel's exports arrive in the American market and twenty-five percent of Israel's imports are United States origin products, technologies, or services. The United States maintains an export surplus with Israel which sustains at least 50,000 jobs in this country. In recent years, the volume of U.S. sales to Israel has steadily increased.

Israel industries compete in a highly competitive environment not unlike that in which United States business operate. Distribution of U.S. products is readily achieved in Israel; there is no problem with public or private discrimination against foreign products or companies; and U.S. companies can easily establish themselves in that country. In general, an atmosphere of tough, but fair, competition prevails among firms operating in both countries, regardless of their nationality.

B. The Generalized System of Preferences is helping to achieve, regarding Israel, what it sought to encourage: the development of Israel's economy for participation in two-way world trade.

In establishing the GSP program in 1974, this Subcommittee felt strongly that, as developing countries modernize their economies, they should reduce and eventually eliminate barriers to United States commerce. This intended reciprocal effect of GSP has not always been achieved. When GSP has helped a beneficiary nation develop its industry, and the United States has achieved equitable and effective access to that country's market, U.S. trade policy should move forward, in the liberal direction of bilateral free trade.

C. A Free Trade Area agreement with Israel will have beneficial effects for both countries.

A Free Trade Area will enable Israel to industrialize further, based on a more predictable access to the U.S. economy. Both countries are committed to the development of high technology industry, which has resulted in a high degree of commercial cooperation among American and Israel companies. Stimulated by the Binational Industrial Research and Development Foundation (BIRD F) and the U.S.-Israel Agricultural Research and Development Fund, more than two hundred American and Israeli companies and institutions of higher learning have cooperated in the development and commercialization of products based on advanced technology. Many other companies are active in binational collaboration in technologically-oriented businesses. A Free Trade Area will encourage broader cooperation of this sort, to the benefit of each participant.

Cementing United States-Israel trade relations through a Free Trade Area, will benefit the United States in a number of ways.

First, it will create additional demand for United States goods and services in Israel. Currently, fifty-five percent of U.S. products enter Israel duty free and all U.S. products account for 18.9 percent of the Israeli market. The U.S. market share is seriously threatened with erosion as a result of the Free Trade Area agreement between the European Communities and Israel, which will be phasing out Israeli duties on imports from EC countries. A similar U.S.-Israeli agreement is necessary to preserve the competitive position of the United States in Israel's $8 billion import market.

Second, by facilitating the development of Israeli high technology companies, it will generate additional Israeli exports to third countries of products which incorporate substantial United States components and/or technology.

Third, the proposal will encourage the transfer of Israeli technology to the United States, where that technology could be incorporated in U.S. products, thereby enhancing the competitiveness of American products in interestional markets.

Fourth, it will increase the opportunities for U.S. investment in Israel, which welcomes foreign investment and does not impose burdensome performance requirements.

Fifth, there would be expanded opportunities for United States services industries (such as banking, insurance, travel, and engineering services) in the multi-billion dollar Israel market.

D. Moving forward now to establish a Free Trade Area will have a beneficial effect on the world trading system.

The principles of the GATT were of course intended to achieve a genuine open market economy among the participating countries. But despite substantial progress, the effort has fallen short of its objective because of the substitution of non-tariff for tariff barriers, and differences in industrial structures and policies.

Commercial relations between the United States and Israel have not been affected by these limitations. Genuine reciprocity of commercial opportunity has become well established in our trade relations with Israel.

The benefits for both countries, which have resulted from the reciprocal reduction of barriers to trade, are prercisely what was contemplated by the United States when it urged the established of the GATT following the Second World War. Further progress in this two-way economic exchange is the objective which was contemplated by the GATT when Article XXIV was adopted which authorized the formation of free trade areas.

American-Israeli trade relations are now approaching the point which has been the objective of American trade policy, and the GATT, throughout the post-World War II era. A free Trade Area wold recognize and consolidate these achievements.

II. THE FREE TRADE AREA WOULD CREATE ONLY MINIMAL COSTS OR RISKS TO DOMESTIC SECTOR OF THE AMERICAN ECONOMY

Israel's exports to the United States are not a significant percentage of United States import consumption in any product category except cut cut diamonds, where Israel has always been a major exporter. Israeli exports are approximately one-half of one percent of total imports into the United States.

A. The ITC study will probably demonstrate that Israeli exports generally do not adversely impact U.S. domestic industries.

Although the United States International Trade Commission has not released its study assessing the impact on the United States of a Free Trade Area with Israel, it seems reasonable to conclude the that the ITC will confirm that Israeli exports do not threaten injury to sectors of the U.S. economy.

U.S. trade statistics indicate that Israel's economy is not structured to concentrate exports on a few products, but that it is a diversified economy producing a broad range of products which are exported to the United States and other countries. Moreover, the small size of Israel's population and the scarcity of certain natural resources will continue to influence the ability of most Israeli industry and agriculture to signficantly increase exports to the United States. Therefore, the International Trade Commission's detailed examination of U.S.-Israeli trade, and Israel's export potential, should confirm the limited effects of a Free Trade Area on U.S. domestic industries.

B. U.S.-Israeli trade relations do not require product or sectoral exceptions from the Free Trade Area agreement.

I am, of course, aware that certain U.S. industries have appeared, or are appearing, before you asking that their particular products be excluded or excepted from Free Trade Area coverage. They argue that their products are "import sensitive," and cite the Caribbean Basin Initiative, or the Generalized System of Preferences as examples of preferential trading arrangements where Congress incorporated exceptions for certain products such as textiles and apparel.

Mr. Chairman, based on long experience with the import relief laws—both in the government and in private practice—it is my view that the opportunity to established a genuine Free Trade Area need not be encumbered by the creation of a special list of exceptions that diminish the benefits of the agreement for both countries.

The proposed Agreement is, of course, importantly different from the GSP and the CBI, in that it will create duty free treatment in both directions. The Agreement will serve the interests of both countries, comply more faithfully with the concept of Free Trade Areas in Articles XXIV of the GATT, and demonstrate more effectively the value of open markets, if all trade is eligible for its benefits.

If it appears necessary, the U.S. Trade Representative can address the concerns of certain specific U.S. industries which may have genuine problems of vulnerability to increased imports resulting from the elmination of duties. This can be done by placing a specialized safeguard mechanism in the agreement itself. Such a mechanism could provide that, upon petition of a U.S. industry, the U.S. will have the right to suspend the duty free treatment and return to normal MFN rates. A determination would be required that increased imports from Israel are an important cause of injury to the U.S. industry (including of course its workers). Provision can be made for such determinations to be made in the U.S. government on a time schedule that is much more rigid than that which is presently available under our Section 201 "escape clause" procedures. These more rapid determinations, following expedited investigations, would be justified by the fact that the consequences of the determination—suspension of duty-free treatment—are less serious than those which can flow from normal escape clause proceedings.

This kind of expedited safeguard measure would provide ample protection for those industries that may have vulnerability, but without an unnecessary and harmful exclusion from the two-way duty elimination provided by the agreement.

Thank you, Mr. Chairman and Members of this Subcommittee for the opportunity to testify on this important trade issue.

Mr. RUSSO. Mr. Herzstein, one of the problems that I have involves the concept of free trade zone. Maybe I am misinterpreting it, but it seems to me that there are other countries similarly situated who could make the same argument to the United States, that we would like to have a free trade zone with your country.

They may be graduated from GSP, and realize that there are items that are not going to be duty-free and thus they will want to establish a free trade zone.

Do you think we have a responsibility to those industries that are affected? And based on your own experience, in how we enforce our trade laws, what alternative do our industries have in seeking remedies in a situation where you have a free trade zone, and you have injury?

Mr. HERZSTEIN. First, I would like to address your suggestion that this might be a new tool in U.S. trade policy. I think it would be a tool, but at least in the next decade, I would see it as being a rather small tool in the toolbox of the U.S. Trade Representative.

Mr. RUSSO. Everything starts on a small scale.

Mr. HERZSTEIN. It is very important to think about who is similarly situated, and might be able to claim similar treatment, I agree.

Mr. RUSSO. Several countries come to mind, Singapore, Hong Kong, some of the countries in Southeast Asia, Malaysia, Mexico, Brazil. Some of our trading partners may later on, when there is a move to graduate certain countries out of GSP, then I suspect every one of those countries would want the same kind of arrangement with us. Canada is another one.

Mr. HERZSTEIN. Right.

I don't want to comment about specific countries, but I would say that most other countries—with the exception of Canada—are simply not ready for this step. I think it would be very healthy as a tool for the United States to hold this out as a carrot for them, but simply to say, look, you are not ready for this yet. We have not developed the sound, two-way relationship with you that justifies us in going this next step. If you look at the full facts with respect to effective United States access to those economies for trade and investment in services, you would find that it doesn't begin to compare with the effective access to the Israeli market.

I am not saying that there are not some countries in the world which would qualify for that, but there are very few at this point.

Mr. RUSSO. I agree that there may be only a few now. Down the line, there may be more than just a few, and now we have set the precedent of a free trade zone to be used and the question is, how do we fairly protect those domestic industries that are going to be impacted?

Yesterday, we had the tomato people in, bromine people in, and we have all these different industries saying look, we are all for free trade zones. Everybody says I am all for cutting the budget deficit as long as you don't cut my program, cut somebody else.

We have a problem, because we will be impacted. How do you deal with that matter?

Mr. HERZSTEIN. You start out by being very careful about entering these new free trade arrangements. There are situations where the disruption to the American industry would outweigh the long-term benefits of the program.

And second, when you do enter these agreements—particularly if we started entering them with larger countries that have more industrial resources than Israel does and therefore, are possibly more formidable competitors—this specialized and expedited safeguard mechanism would be appropriate.

In other words, we would say to those countries: "We will enter a free trade agreement with you, but the benefits you get under it are not going to be quite as stable or as permanent as those which you have under our regular GSP tariff schedule."

Mr. RUSSO. Does your escape clause have any specific timetable?

Mr. HERZSTEIN. I didn't suggest one. I suggested it could be much more expedited than our current escape clause, which takes about a year.

Mr. RUSSO. We get into this with some country, and it impacts on steel, something like that, take the history of what happens in the trade remedy laws, by the time the ITC makes a decision, the company is out of business. Workers have been laid off. The Government is paying unemployment compensation to help them.

If we set up a free trade zone where we allow import-sensitive items to come in and compete with our industries, there has to be some kind of a mechanism that immediately allows consideration and action by the Government to protect those industries.

All of the witnesses I have heard said they want a free trade zone with no exceptions. Yesterday's witnesses said just the opposite.

Mr. HERZSTEIN. It makes more sense to start out with everything included. Then see what you have to extract based on actual experience, but be prepared to extract it quickly if you have to do so.

That makes good sense, and the fact that the consequences of the safeguard procedure are not so severe, that enables us to have a faster and more informal kind of safeguard mechanism in place. All that would happen to an industry, to an importer that faces this expedited safeguard mechanism, is that he would lose his duty-free treatment, go back to the regular MFN rate, so it wouldn't be as serious as the consequences he faces under our 201 safeguard mechanisms.

Mr. RUSSO. I doubt Israel would have a great impact on our domestic markets, but that is a given, based on the fact 90 percent comes in already and we have been able to survive.

I can't see far enough down the road as to the other countries that might want free trade zones—they have a major impact, and how do we deal with that?

It may be a concept that is here to stay, and I may be all wrong on it, but if we are entering some new waters, I want to make sure that things that may happen down the road, that none of us can totally predict, there should be some safeguards.

Mr. HERZSTEIN. It would be sensible for the Congress to make clear in the legislative history that it does not commit us to free trade agreements with other countries that come in and ask for them.

We have to do a weighing of the overall national interest each time. And one of the elements to be weighed would be the likely impact on American industry of the new competition that would result from a free trade agreement with another country.

Mr. RUSSO. Thank you very much.

This concludes the subcommittee's hearings on the proposed United States-Israel free trade area, and the record will remain open for written submissions until the close of business next Thursday, June 20.

[Whereupon, at 12:15 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

GEORGE ALTMAN & CO., INC.,
New York, NY, May 23, 1984.

JOHN J. SALMON,
Chief Counsel, Committee on Ways and Means,
U.S. House of Representatives, Washington, DC.

DEAR SIR: I am writing to express my support for the proposed Free Trade area between the United States and Israel.

As an American citizen, I believe such an arrangement would prove beneficial to both countries, as it would allow both countries to increase exports.

I was disappointed to learn, however, that the Manufacturing Jewelers and Silversmith of America has suggested that gold jewelry be excluded from this duty free arrangement. I fail to understand why the Association feels this to be necessary. As everyone in this industry knows, imports from Italy far surpass Israel's, even though Israel already has duty/free benefits for its jewelry. Maintaining duty-free benefits under an FTA would only allow Israel to stay competitive with Italy. It certainly would not give Israel any unfair advantage over U.S. producers. The quality of Israel's jewelry is not yet up to that of Italy or even the U.S. If Israel were to lose duty-free treatment its exports would, I believe, drop dramatically.

Accordingly, I urge you to support the free trade arrangement and to not exclude gold jewelry.

Very truly yours,

GEORGE ALTMAN.

Letters identical to the one above were also received from:
Apco Merchandising Corp., New York, N.Y.
Cosmo Chain Co., New York, N.Y., Edith Kahan.
Eastern Jewelry Manufacturing Co., Inc., New York, N.Y.
Edith Jewelry Manufacturing Corp., New York, N.Y.
Eshel Jewelry Manufacturing Co., New York, N.Y.
H. Jack Gordon, Inc., Los Angeles, Calif.
Leer Gem Ltd., New York, N.Y.
Richline Jewelry Manufacturing Corp., New York, N.Y.
Spark Diamond Corp., New York, N.Y.

Stuart Findings, Inc., New York, N.Y.
Tradewell Industries, Inc., New York, N.Y.
Walter Edbril, Inc., New York, N.Y.

STATEMENT OF HON. DALE BUMPERS, U.S. SENATOR FROM THE STATE OF ARKANSAS

Chairman Gibbons and distinguished members of the Subcommittee on Trade, it is a privilege for me to have the opportunity to submit testimony on the proposed U.S.-Israel free trade area. This is an important proposal which, properly crafted, can bring important benefits to both Israel and the United States.

As I told the International Trade Commission in April, however, I am deeply concerned about the potentially serious consequences that an FTA could have upon the U.S. bromine industry, a small but vital sector of the American economy. Bromine is the basic raw material used in compounds essential to the production of gasoline additives, agricultural chemicals, flame retardants for plastics and textiles, pharmaceuticals, oil and gas well completion fluids, water sanitizers, fire extinguishing agents, catalysts, and other industrial chemical compounds.

Unlike almost all other key industrial raw materials, which have multiple sources around the world, bromine has really only two significant free-world producers: the United States and Israel. Eighty-five percent of the U.S. bromine production comes from Arkansas, where approximately 1,200 people are directly employed in the industry and 3,000 other jobs indirectly depend on them.

I wish this were just a case where a prospering American industry was fearful of losing a small share of its market and was enlisting a little help to protect its profits against a slight dip. Sad to say, this is not the case at all. The U.S. bromine industry has already suffered three serious blows that have left it reeling and one more could knock it out entirely. In the past few years, the industry has suffered from a severe recession, the gradual phase.out of ethylene dibromide [EDB] as a gasoline additive, and now the EPA ban late last year on EDB at a soil fumigant. I'm not suggesting that the ban on EDB is improper. To the contrary. But it is taking a toll on this industry which is already in difficulty.

While the painful recession may have only a passing, though deep, impact on the bromine industry, the effects of the latter two are permanent—and very serious. While U.S. industry as a whole has returned to an operating capacity of 81 percent, the U.S. bromine industry by the end of last year was still mired at the deep-recession level of 58 percent. The EPA ban has probably lowered this further to about 50 percent today.

In addition, legislation has been introduced in both Houses of Congress to ban all leaded gasoline—and thus the EDB used as an additive—on an accelerated basis. While the bromine industry recognizes that it will eventually lose the EDB market for gasoline additives, which now accounts for 45 percent of the bromine produced, the possibility of the accelerated loss of this market is yet another blow to an industry already looking uncertainly to the future.

In short, the U.S. bromine industry is already in very serious trouble and will continue to be in a precarious state even without the loss of protection against Israeli bromine imports.

This is the context in which bromine-related decisions on the U.S.-Israel FTA must be made. It is estimated that without special consideration in the FTA, the already weakened U.S. bromine industry would suffer an additional loss of 33 percent in employment, as Israeli imports of bromine compounds to the U.S. would triple by the end of 1985.

These alarming facts alone argue for special consideration for the U.S. bromine industry in the FTA, even assuming free and fair competition from the Israeli bromine industry. But that is an assumption which cannot be made, and which makes the case for helping the U.S. bromine industry all the more compelling.

The Israeli bromine industry enjoys a series of subsidies and other special advantages, not available to our industry, which helps explain why, despite the cost of shipping bromine chemical imports into the U.S. from Israel have increased by 160 percent in just the last three years.

To begin with, the Israeli bromine industry is Government-owned. That in itself says quite a bit. Being Government-owned, the Israeli bromine industry does not have to try to make a profit, and it is able to raise capital for its operations far more cheaply and easily than any private U.S. bromine producer can. As is well known, many countries, saddled with debt and confronting a serious balance of payments problem, sometimes place a higher premium on earning foreign exchange than on earning a profit. Israel certainly falls into this category. In addition, Israeli bromine chemicals have enjoyed duty-free access to the European Community since 1977, while U.S. producers face an average 10 percent duty. Israeli bromine chemicals also enjoy duty-free access to Japan and Canada.

In some instances outright grants have been made. For example, not long ago the Israeli Government provided $176 million in grant aid to their potash industry. This directly helps the Israeli bromine industry because bromine is a by-product of the potash recovery process. Furthermore, the Israeli bromine industry can receive working capital loans from the Government on favorable terms. The real irony is that the United States helps to make all this possible through economic stabilization funding [ESF] aid to Israel. President Reagan is requesting $900 million more for Israeli ESF funding by fiscal year 1985.

In addition, the Israeli bromine industry enjoys subsidized ocean freight transportation and is further subsidized if it moves materials through the Israeli Port of Eilat. Furthermore, the Israeli Government subsidized half the bromine industry's export promotion costs up to eight percent of export income. Israel also provides low-cost insurance against exchange rate fluctuations to their bromine industry. Training grants are also provided to assist in the training of employees for the industry. The Israeli Government also refunds a whole host of indirect taxes on their bromine exports, such as customs duties, purchase taxes, value added taxes, travel taxes, and others.

The U.S. bromine industry, privately owned, privately operated, does not even remotely enjoy comparable Government assistance. This situation is a far cry from free trade and helps explain why the Israeli industry has already made important inroads into the American market. This is why I am deeply concerned for the very existence of the U.S. bromine industry if special consideration for bromine is not given in the FTA under consideration. The industry is passing through a critical period now as it attempts to recover from the punishing blows of recession, EDB phase-out from gasoline, and the EPA ban on EDB as a soil fumigant. I do not oppose the overall concept of an FTA with Israel, but I do oppose the devastation of an already weakened, privately-owned U.S. bromine industry by a subsidized, Government-owned Israeli one.

AARJOY, Inc.,
Scottsdale, AZ, May 19, 1984.

Mr. John J. Salmon,
Chief Counsel, Committee on Ways and Means,
U.S. House of Representatives,
Longworth House Office Building, Washington, DC.

Dear Mr. Salmon: I am Raymond N. Carlen, President of AARJOY, Inc., a wholly owned firm providing managerial and financial consulting. I am 64 years of age and have spent my life in private enterprise serving Joseph T. Ryerson & Son, Inc. as Executive Vice President, 1963–68; President, 1968–76; Chairman, 1976–78; and as Vice Chairman, Inland Steel Company, 1978–82 when I retired. During that 20 year span, the Ryerson Company, a wholly owned subsidiary of Inland Steel, held an 18% interest in an Israeli company. That investment was sold after my retirement from Inland.

During the 1962–82 span, I visited Israel and our associates visited us here more than twice annually. I served on the U.S.-Israel Counsels for all of its early years after approval by the President. I performed a 10-day study with recommendation on policies and infra structure to and at the request of Prime Minister Itzhak Rabin. Additional insights were gained by relationship with Business & Commerce associations, business leaders and political leaders during that 20 years. They are a matter of record in Israel.

This understanding, along with my 40 years of business leadership experience, leads me to recommend highly to the International Trade Commission that they reach a favorable decision on the probable economic effect of providing duty-free treatment for imports from Israel.

At the time of my study for Prime Minister Rabin and the successful conclusion of the European Community F.T.A., the heart of my recommendations was the added value exports from Israel. To continue as a strong democracy and a powerful ally of the U.S. in the Middle East, Israel must export (more than technology), it needs product to offset its inflationary and actually debilitating unfavorable balance of payments.

The successful attainment of a trade agreement to establish an F.T.A. as set forth in your No. 332-180 can be of material assistance to both Israel and the United States.

Respectfully submitted,
Yours very truly,

RAYMOND N. CARLEN
President.

STATEMENT OF AMIT SCHWARTZ, PRESIDENT OF AGREXCO (USA) LTD., JAMAICA, NY

I am Amit Schwartz, President of AGREXCO (U.S.A.) Ltd., the wholly owned subsidiary of AGREXCO Export Co., Ltd., Israel's leading exporter of fresh agricultural produce, including fresh cut roses. AGREXCO (U.S.A.) imports roses from our parent company and sells them in the U.S. for the Israeli growers.

The purpose of my statement is two-fold: 1) to comment generally on the production and marketing of roses in Israel and 2) to comment specifically on points raised by the U.S. association of rose growers, Roses, Inc., in hearings before the USTR.

GENERAL COMMENTS ON PRODUCTION AND MARKETING OF ROSES IN ISRAEL

The production for roses of export in Israel has been declining since the late 1970's as the following statistics show:

	Hectares planted	Total roses exports (in millions of blooms)
1980/81	220.0	158.3
1981/82	199.6	139.6
1982/83	150.0	115.8
1983/84 [1]	127.5	96.0

[1] Estimate.

The primary reason for this 40% reduction in production is that marginally profitable producers who entered the field under price expectations of the late 70's have stopped production. High fuel costs, increased competition in European markets, and lack of technical expertise have made rose growing a profitable enterprise only for highly skilled and efficient growers.

Of Israel's rose production for export, over 95% is marketed in Europe, with the U.S. market receiving approximately 4.5% of Israel's rose production each year. Imports of roses from Israel to the U.S. have declined since 1981. This decline is primarily a result of the overall reduction in Israel's total rose exports. The European auctions, because of their large operations, are the first targets of Israel's marketing. Other marketing channels in Europe also demand Israeli produce. Prices paid in Europe are generally higher than in the U.S. Nevertheless, rose exports to the U.S. have been continued, at times even when giving lesser returns than in Europe, in order to allow Israeli marketers to offer roses as part of a complete range of flowers along with carnations and other flowers.

SPECIFIC COMMENTS ON POINTS RAISED BY ROSES, INC. BEFORE THE USTR

Countervailing duties on Israeli roses

Without any substantial change in Israel's export policies, the U.S. countervailing duty on roses from Israel has grown from 1.5% to 27.94% as a result of variations in calculations and methods on the part of U.S. administering agencies. The most recent finding of 27.94% is being challenged by Israeli authorities, who believe that at least 10% of the duty is a result of an error in calculation. In addition, other calculation methods, which AGREXCO claims were incorrect, are currently being reviewed by the U.S. Court of International Trade.

Customs valuation and the price in the U.S. market of Israeli roses

Roses, Inc. has complained that entries of roses from Israel are undervalued. In fact, the valuation method of Israeli roses is well known to the U.S. Customs Service; Customs currently is conducting a review of the matter with the full cooperation of AGREXCO. Since AGREXCO Inc. receives the merchandise from its parent company on a consignment basis, the most common form of valuation is inappropriate; Customs must back into the value. The indicative prices set forth in the Customs statistics—relied on by Roses Inc. to suggest that Israel's roses are undervalued—are irrelevant. Israel's roses sell at prices comparable to prices for other roses sold in the U.S. market and it is on these actual prices that AGREXCO pays duty.

Israeli Government reports show f.o.b. values on rose shipments to the U.S. between 17¢ per bloom up to 21¢ per bloom as seasonal averages in 1978–1983. These figures have also been reported to the Department of Commerce as part of the annual countervailing duty reviews.

There is no evidence, nor has Roses Inc. aruged, that Israeli roses sell in the U.S. at prices below market averages or at below prices of U.S. producers. The opposite is true: because of the high transportation costs from Israel to the U.S., Israel roses cost more than produce from other countries at the wholesale level, yet provide a lower return to Israeli exporters because of the high airfreight costs.

Alleged "import sensitivity"

Roses Inc. argues that U.S. grown roses are "sensitive" to all imported roses. Yet Roses, Inc.'s testimony in the past demonstrated that U.S. producers' concerns are primarily directed at the large increase in imports from nearby countries—principally Colombia.

It must be remembered, however, that the proposed free trade area will be with Israel, not Colombia.

In 1983, Israel's imports to the U.S. accounted for only 0.7% of total U.S. consumption in terms of quantity. In value terms, the percentage was probably lower [1] since most roses sold by AGREXCO in the U.S. are of the smaller sweetheart variety which command a lower price than the larger hybrid tea rose which is also sold in larger quantities in the U.S. than the sweetheart variety. Moreover, AGREXCO believes, based on International Trade Commission statistics, that Israeli roses have never held more than approximately 1.2% of U.S. production. Finally, although the International Trade Commission has never specifically considered whether roses from Israel were causing injury to U.S. rose growers, the Commission did find in a 1980 Section 201 decision that the U.S. rose industry was not seriously injured by imports from all sources, including Israel. See, Fresh Cut Roses, TA-201-42, USITC Publication 1059 (April 1980). Since that finding, Israel's imports of roses into the United States have declined.

CONCLUSION

In light of the high transportation costs to the U.S., the importance to Israel of the European flower market, and the decline of rose production in Israel, the impact on U.S. rose producers of duty-free treatment for Israeli roses under an FTA would be minimal.

AMERICAN BUTTER INSTITUTE-NATIONAL CHEESE INSTITUTE, INC.,
Chicago IL, May 15, 1984.

Mr. JOHN J. SALMON,
Chief Counsel, Committee on Ways and Means,
U.S, House of Representatives
Washington, DC.

DEAR MR. SALMON: We appreciate the opportunity to submit this statement on behalf of the American Butter Institute and the National Cheese Institute whose members are manufacturers, processors, packagers and distributions of approximately 90% of the butter and cheese distributors in the United States.

There are many twists and turns connected with the initiative to establish a United States—Israel Free Trade Area. This statement deals with only one of those turns, not that the other facets of the project are not also important. Our concern is the impact of this proposed agreement on previous actions taken pursuant to Section 22 of the Agriculture Adjustment Act (7 U.S.C. 624). It is our understanding that the terms of the United States-Israel Free Trade Area will permit trade between these two countries not only free of tariffs, but also free of existing quotas.

Dairy product quotas, established by Presidential Proclamation after hearings and investigations by the U.S. International Trade Commission, are intended to prevent, among several criteria, interference with the dairy price support program. Our system of assigned quotas could be seriously breached if Israel, or any nation, becomes a funnel for dumping the global milk surplus into the United States. This could potentially permit unlimited amounts of dairy products, formerly under quota, to enter the United States. It would be especially harmful to the established quota system if European milk or cheese or butter, for example, were sent to Israel for packaging or processing and then shipped to the U.S. and a non-quota product of Israel.

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[1] Total U.S. consumption in 1983 was estimated by Roses, Inc. at 607 million blooms. We do not have an estimate of the value of rose consumption in 1983.

Such action would not only be disruptive to the intent of Section 22, but also unfair to all other nations which hold quota allocations. U.S. holders of cheese import license would also be losers as their licenses would become worthless.

We suggest strict recognition of the intent of Section 22 quotas for dairy products be evident in the finding of this Committee. Furthermore, if legislation is proposed to implement this free-trade proposal, then a clarifying paragraph, such as follows, should be included as a part of such legislation:

"No proclamation issued pursuant to this title shall effect fees or quotas imposed pursuant to Section 22 of the Agricultural Adjustment Act (7 U.S.C. 624)."

Sincerely,

R.F. ANDERSON,
Executive Director.

STATEMENT OF LESLIE H. NOVAK, PRESIDENT, AMERICAN-ISRAEL CHAMBER OF COMMERCE AND INDUSTRY OF MINNESOTA, INC.

This statement is submitted on behalf of the American-Israel Chamber of Commerce and Industry of Minnesota, Inc. in support of the establishment of a Free Trade Area (FTA) between the United States and Israel.

Our Chamber encourages trade between the United States and Israel for the bilateral benefit of both countries. A Free Trade Area would not only stimulate import and export for both countries, but also, by stengthening economic relations, would advance the cause for peace in the Middle East.

An FTA would enhance the role of U.S. imports into Israel. Israel already must import most of its raw materials and, in many cases, components which are assembled into finished products. The European Community has been encroaching on the U.S. share of this $8 billion annual Israel import market (Israel has an FTA arrangement with the Common Market). A U.S.-Israel FTA would act to eliminate the tariff barriers which are now impediments to importing from the U.S. The Israeli economic sector perfers U.S. made goods; an FTA would give a clear advantage to U.S.-made products over other countries.

From the perspective of our organization, which helps Minnesota businesses trade with Israel, an FTA would encourage this trade. Minnesota businesses already export large amounts of products to Israel such as: components for communication systems, electronic parts, and defense products. An FTA would stimulate additional exports from this region.

Several Minnesota companies already have research-related joint ventures with Israel. An FTA would serve to stimulate increased cooperation in the many Minnesota-Israel aligned fields, such as medical instrumentation, electronic engineering, computers, and agricultural technology. Israel has a highly skilled labor force as well as governmental support for joint ventures. An FTA would allow these products, which are researched and developed both in Israel and the United States, not only to enter the U.S. market competitively, but also to compete favorably in the European Economic Community.

An FTA would help to increase Israel's exports to the United States. In all likelihood, the additional funds generated for Israel would be used for increased purchases from the United States and payments to the United States.

Although Israel already enters many of its products duty-free under the Generalized Systems of Preferences (GSP), this agreement is due to expire in January 1985. The GSP agreement contains certain disadvantages: it is not specific to Israel and therefore, Israel is vulnerable to changes in the agreement brought about by U.S. policies in other countries; the GSP covers only certain products whereas an FTA would be more inclusive. The GSP imposes quotas on products which have reached a threshold of import. An FTA would, therefore, offer additional stability to U.S.-Israel trade and to its mutual relations.

Israel is the only democracy in the Middle East. Its trade with its neighbors is very small, and it must, therefore, ship goods thousands of miles to find accessible markets. Imposed tariffs make it difficult, if not impossible, for Israel to compete in the U.S. market with their products which are often unique and highly sophisticated. Conversely, U.S.-made products will have a more competitive advantage against European-made products in the Israel market if an FTA is implemented. This free trade will assist both the U.S. and Israel to enjoy a strengthening economic relationship without harming U.S. interests.

STATEMENT OF LEE COLLINS, VICE PRESIDENT, BANK HAPOALIM B.M., LOS ANGELES, CA

My name is Lee Collins. I am currently Vice President of Bank Hapoalim located in Los Angeles, California. Bank Hapoalim is an Israeli Bank, licensed to do business in California and elsewhere in the United States.

I was formerly U.S. Commercial Attache at the American Embassy in Israel. Having been Commercial Attache, I can speak to the question of how a Free Trade Area (FTA) would benefit Israel since I have seen how Israel benefited from the GSP. This I can do both as an American Banker and as an on-the-spot observer of how duty free treatment benefited Israel and how it could benefit the U.S. as well.

Since the FTA will, to a certain degree, be a replacement for the GSP as far as Israel is concerned, let me first comment on the GSP program in general.

I regard the GSP as a vital instrument for world economic stability and peace. During the past two years the global recession forced several lesser developed countries into loan defaults, some banks have collapsed, and the international financial system was threatened.

Israel's ability to purchase goods from the U.S. is made possible in part by the duty-free benefits on Israel's exports to the U.S. under the GSP, and would also be possible under an FTA. Such benefits provide Israel with the export earnings and the wherewithal to buy from the U.S.

In my capacity as U.S. Commercial Attache at the American Embassy in Israel, I observed both the agonizing economic distress of the tiny country and the strong strategic relationship between Israel and the United States in that region of the world.

Even with and partly because of Israel's stategic position in the Middle East, Israel has the highest per capita military budget in the world (40% of her GNP); the highest debt per capita in the world (a balance of payments of $4 billion, almost half of which has to be borrowed abroad); a trade deficit in excess of $2.5 billion; total debt-servicing of approximately $3.5 billion in 1983; and almost 200% inflation.

Reducing Israel's exports by eliminating the GSP and not implementing an FTA would cost us dearly in our own exports to Israel, where, even without the advantages U.S. Exports would receive under an FTA, the U.S. has a $4 million annual surplus in its binational trade with Israel. It would also weaken Israel's role as our strategic military ally "vis-a-vis" Russia's aspirations in the Middle East. In the absence of our own military presence in that turbulent area, our own Pentagon may well ask this question: How could the United States strategically position a battleship the size of Israel—that would be laden with all of the military hardware we might need at a moment's notice?

A Strategic Military Asset (such as Israel has been for the U.S.) requires the reinforcement of economic support. It seems to me that it would be counterproductive to weaken our ally economically—and then expect our Military Alliance to remain strong.

In a recent statement, former Assistant Secretary of State Nicholas Veliotes, now U.S. Ambassador to Egypt, stated—"Support for Israel's security and economic well being is a basic firm principle of American Foreign Policy."

Therefore, I do not believe that Israel should be weakened economically because of failure to continue duty free benefits. Such a step would only undermine American exports to Israel. Currently, Israel is the third largest importer of U.S. products in the Middle East.

Another point worth noting is that, like other LDC's, Israel is struggling with an energy problem. When Israel withdrew from the Sinai, as a gesture of peace to Egypt, she returned the Abu Rhodesh oil fields, which had supplied 100% of her oil needs. Israel, in effect, traded these oil fields for a vague promise of peace, and got in return a $2 billion annual oil bill, another burden to our allies economy.

Under a free trade area, Israel would continue to receive the benefits now afforded under the GSP but without the continued concern that such benefits might be lost on a product-by-product basis. Such security would be of extreme importance to Israel's exporters.

Of more importance, the U.S. could benefit substantially from a free-trade agreement with Israel. Presently 90% of U.S. imports from Israel enter duty-free already, either under an MFN basis (55%) or under GSP (35%), whereas only 55% to 60% of

U.S. exports enter Israel duty-free. Obviously, this imbalance could be rectified with an FTA with Israel.

Such an agreement would tend to moderate the concern often voiced in Congress that American exporters are unfairly treated. An FTA with Israel would address this issue and would provide a balanced reciprocity in trade relations. Furthermore, Israel exports to the U.S. amount to less than one half of 1% of total U.S. imports worldwide.

An FTA with Israel would provide duty-free access for U.S. exporters to a significant market of $8 billion, consisting of high technology electronics equipment, computers, communication systems, and metal working machinery, etc. Israel's currently substantial purchases of this type of equipment could be further increased.

Moreover, Israel presently has in effect, the EC–Israel FTA (European Community-Israel free trade agreement) which provides duty-free access for most European industrial goods into the Israeli $8 billion import market. That puts the American exporter at a competitive disadvantage vis-a-vis the European exporter to Israel.

It would appear from a review of the Israel-EC agreement, that we would do well for our own American exporters to pattern a similar arrangement between Israel and the United States.

Such duty-free access to the third largest import market in the Middle East would provide long term economic benefits for the U.S. as well as strengthen our political and military relations. Such closer ties could enhance the Mid-East peace process.

The increased trade that would result from an FTA with Israel would strengthen both the economies of the United States and Israel, and in particular would help Israel become more self-sufficient and less dependent on aid. "Trade not aid" is a foreign policy objective of the U.S., and an FTA with Israel would be a step closer to that goal.

Most importantly, however, an FTA would be a two-way street, with duty free trade flowing in both directions. This would eliminate the inequities of the GSP perceived by U.S. industry: U.S. industry would have the right to sell in Israel on the same terms that Israel sells in the U.S. This cannot but help to better strengthen relations between the two countries, and cannot but help to strengthen Israel's fragile economy—which as I said earlier, can only benefit the U.S. in the long run.

I urge this Committee and Congress to carefully consider our own national interest in its evaluation of the FTA proposal.

California Almond Growers Exchange,
Sacramento, CA, June 13, 1984.

Chairman Sam Gibbons,
U.S. House of Representatives, Committee on Ways and Means,
Trade Subcommittee, Washington, DC.

Dear Mr. Chairman: This is to present the views of the California Almond Growers Exchange regarding the proposed U.S./Israel Free Trade Area (FTA). The Exchange believes that the proposed agreement would have a severe adverse impact on the world trading system and strongly opposes any legislation authorizing such an arrangement.

Since the 1940's the United States has worked diligently under the General Agreement on Tariffs and Trade (GATT) to create and promote a multilateral framework for free trade. Although imperfect, this multilateral structure has come a long way in reducing trade barriers, particularly tariffs, throughout the world. Bilateral trading arrangements such as that proposed with Israel, represent a significant step backwards in our efforts to extend fair and equal treatment to all GATT member countries.

The Exchange has had personal experience with the problems of preferential trading arrangement. For many years, we have been concerned about the European Economic Community (EEC) extending duty-free treatment to Spain, a major almond producer, following Spanish accession to the EEC. With preferential zero duty treatment, Spain is certain to displace U.S. almond exports from the critically important European market. To protect our industry against this result, we have made considerable efforts to obtain a substantial reduction in the EEC's current 7 percent duty on almonds. The duty reduction has yet to be achieved. Our concern about duty free treatment for Spanish almonds is but one example of the potential disruption that can be caused by free trade zones.

The adverse ramifications of such arrangements are not limited to the direct economic effects of the agreement itself. Once a bilateral agreement is signed, there will be great pressures from other countries (Saudi Arabia and Mexico, for example) to enter into similar agreements. This inevitably will lead to the creation of a multitude of bilateral agreements, thereby rekindling the fragmented trading structure that existed in the pre-GATT era. As a matter of economics and policy, the United States should not risk these consequences by initiating a bilateral agreement with Israel.

A related policy concern is that the proposed legislation would give complete discretion for negotiating the U.S./Israel agreement to the Executive Branch. Although Congress must ultimately approve the agreement, there will undoubtedly be great pressures to accept the package in its entirety as negotiated. This is of concern, since the United States is likely to give Israel much more than it receives in the agreement, particularly given the vast disparity in size of our two countries.

To protect our domestic industries as well as the integrity of the world trading system, we urge you to oppose any legislation that would authorize the U.S. Trade Representative to enter into a free trade agreement with Israel.

We appreciate the opportunity to make these comments and thank you for your careful consideration of our concerns. Please make this letter a part of the hearing record.

Sincerely,

Steven W. Easter,
Vice President, Member and Government Relations.

California-Arizona Citrus League,
Van Nuys, CA, June 13, 1984.

Hon. Sam Gibbons,
Chairman, Ways and Means Committee, Trade Subcommittee,
U.S. House of Representatives, Washington, DC.

Dear Mr. Chairman: I am writing you on behalf of the California-Arizona Citrus League to express our opposition to the proposed U.S.-Israeli Free Trade Area. I respectfully request that this letter be entered into the record of the Trade Subcommittee's hearings on the Free Trade Area scheduled for June 13 and 14, 1984.

The League objects to the Administration's proposed free trade area on both economic and policy grounds. From a policy standpoint, our objection to the proposal relates to our outstanding trade complaint regarding the illegal arrangement between the European Economic Community (EEC) and Israel. The Administration has declared in hearings before the Senate Finance Committee and in other contexts that the proposed free trade agreement with Israel is expected to be similar to the EEC-Israeli agreement. The EEC's preferential trade arrangements with Israel and other Mediterranean countries on citrus imports are currently the subject of the oldest outstanding U.S. trade complaint under § 301 of the Trade Act of 1974. The case was brought and has been vigorously pursued because the EEC's preferential trade agreements have cost our domestic industry dramatic reductions in lost EEC sales. Since the introduction of the EEC's preference scheme, EEC imports of fresh oranges and lemons from the United States have decreased by over 30%.

Given Israel's complicity in an illegal trading arrangement that has caused extreme harm to our industry, it is wrong as a matter of policy to award Israel with duty-free access to the U.S. market for citrus and citrus products. Further, by referencing the EEC's agreement with Israel as a model for the U.S.-Israeli proposal, the Administration has sent misleading and damaging signals to the GATT panel considering our complaint. Both our government and industry had devoted too much time and expense to this case to allow U.S. actions or pronouncements to jeopardize its outcome.

From an economic standpoint, because U.S. sales abroad have suffered so extensively from EEC-Mediterranean trading arrangements, Congress should not contribute to our economic strains by opening our doors to citrus, one of Israel's major agriculture exports. It should be remembered that although Israel now supplies most of its agricultural products to the EEC, once Spain acceeds the Community Israel will need to rely more heavily on its second largest export outlet, the United States. Since Israel does not import citrus, U.S. market losses will not be offset by trading liberalization in Israel.

In sum, the League opposes for economic and policy reasons the extension of trade benefits on citrus and citrus products to a country involved in a trade arrangement that has caused clear damage to U.S. citrus exports. We do not wish to see our domestic market sustain similar damage as a result of a similar agreement. For these reasons, the California-Arizona citrus industry opposes the negotiation of a free trade area with Israel.

Sincerely,

William K. Quarles, Jr.,
President.

Statement of Joel Nelsen, President, California Citrus Mutual

Mr. Chairman, members of the committee, on behalf of the officers, directors and 800 producer/members of California Citrus Mutual, I want to thank you for this opportunity to offer arguments why modifications to the proposed United States-Israeli Free Trade Zone are necessary.

My name is Joel Nelsen, and as Chief Executive Officer of California's sole citrus producer organization, I bring you the thoughts and conclusions of our board on this issue. Citrus Mutual is not a marketing organization, nor do we own any acreage. Our members are farmers. They market their product through a variety of independent shippers in addition to well-known marketers such as Sunkist.

We are concerned about the present language of the proposal because, in our view, it places the citrus industry in a nothing-to-gain but everything-to-lose situation. The concept is admirable; and in this era of huge trade deficits, we commend our President for developing programs to rectify this problem. But as so often happens in issues of this magnitude, we lose our perspective as to the individual trees constituting a large forest.

While the administration and other industries hail this "free trade" proposal, we question the equitable nature of it. Israel is a market representing approximately five million peopoe which exports as much citrus as it consumes, with the potential to produce more. There simply is not room for our product there. That, coupled with labor and production costs which are less for Israel, provide greater opportunity for that country—not for ours.

Israel is a major supplier to the EEC and as part of that community has opposed the reduction of tariffs for United States products. Yet, we offer them reductions in the form of this proposal. Where is the equity?

As written, this proposal could allow citrus products from other countries to enter the United States via Israel. The "point of origin" question at a minimum needs to be clarified.

It is our understanding, that the majority of Israeli exports into the United States are duty free. If so, one must assume that the balance of goods would be harmful to United States producers or manufacturers. Why then must we allow these products to enter the United States now? This argument is being touted for many reasons, but the fact of the matter is that industrial products will be the beneficiary of this program. There is no potential gain for citrus, only loss. The strength of the United States dollar makes our product very expensive, *if* a market existed. This problem does not exist for Israel. Where is the equity?

This proposal appears to be a blatant attempt to circumvent the Generalized System of Preferences (GSP). Israel has repeatedly applied for duty free entry on certain agricultural crops. Their applications have been denied. Could this be a novel approach to achieve the same results? Is this not inconsistent?

Lastly, the United States fights discriminatory programs in GATT, yet now the administration supports a discriminatory program.

Mr. Chairman, because of these inconsistencies, because we fail to see what the United States citrus industry can gain from this, and because we can see what the same industry can lose, we urge all proponents to reconsider this proposal.

Statement of Henry J. Voss, President, California Farm Bureau Federation

The California Farm Bureau Federation is the state's largest general farm organization, representing over 100,000 member families. We appreciate this opportunity to set forth the concerns of our membership on the proposal to establish a U.S.-Israel Free Trade Area and express our opposition to such bilateral trade agreements.

The following horticultural products from Israel would be affected by such an agreement:

147.31.40	Oranges	$256,000	1¢/lb.
147.31.60	Citrus, prep and pres.	1,892,000	1¢/lb.
148.42-.50	Olives, prep and pres.	1,718,000	15¢-30¢/gal.
	Canned noncitrus fruit	187,000	wide variation
141.65.20	Tomato paste	5,597,000	13.6% ad valorum
141.65.40	Tomato sauce	3,907,000	13.6% ad valorum
141.66.00	Canned tomatoes	11,139,000	14.7% ad valorum
192.18	Roses	441,000	8% ad valorum + 27% countervailing duty
167.30-.37	Wine	1,675,000	37½¢/gal.

Among our members are over 800 cut flower producers, 1,100 processing tomato producers, 700 olive producers, 2,000 citrus producers, and 1,300 avocado producers. The creation of a duty-free trade arrangement with Israel has the potential to significantly affect the domestic markets of the producers of these import-sensitive crops.

In 1982, California, for the 35th year, led the nation in gross cash farm receipts. Over $14 billion was paid for the 51.8 million tons of agricultural products produced in California. It is estimated that 25% of the jobs in the state are agricultural. Of the $14 billion gross farm receipts, $412,274,000 was for flowers and foliage, $421,138,000 for processing tomatoes, $481,699,000 for citrus, $69,862,000 for olives, $95,103,000 for onions, $105,400,000 for avocados. An agreement which impacts the markets for these products affects a significant portion of the state's gross product and 11% of our agricultural trade.

The following comments on these industries illustrate the pecarious position of the domestic producer.

Olive production in Israel is very similar statistically to that of the U.S. Bearing acreage in the U.S. is 32,000, while Israel's is 35,000.

Olives from Israel currently sell in the U.S. for less than domestically produced olives, even with an approximate tariff of 5¢ per pound. In 1985, it is estimated that our carryover will total a full year's domestic supply of olives.

In 1983, Israel supplied 86.5 percent of the U.S. imports of tomato sauce, 14.8 percent of its tomato paste imports and 12.65 percent of its canned tomato imports. Approximately 85 percent of Israel's processing tomato production is intended for U.S. market. In 1983, tomato products accounted for 55 percent of the agricultural imports from Israel. The market for processed tomatoes has remained stable for the last five years, yet imports from Israel tripled in 1981-1982. Even with the current duty of 14.7 percent, canned processed tomatoes (crushed) can be produced by Israel, imported and sold in the U.S. for less than similar domestic products.

Israel is the second largest producer of grapefruit, and the fourth largest producer of oranges, in the world. Israel follows only the U.S. in exports of grapefruit. Since 1969-70, U.S. producers' exports to the EC have dropped 30 percent for oranges and lemons, primarily due to the EC tariff preference scheme for Israeli and Mediterranean citrus. Imports to the U.S. from Israel increased 400 percent between 1980 and 1982. Although world demand for fresh citrus has generally remained static for the last ten years, world exports have doubled during the last 20 years. In 1983, three requests by Israel for tariff reductions on citrus under the Generalized System of Preferences were denied even a hearing.

Further complicating the situation is the question of whether Israeli producers receive government subsidies. In 1982 and 1983, Israeli tomato producers were paid $11 and $3.78 per ton, respetively, by their government. In 1980, the International Trade Commission recommended that a 27 percent ad valorum countervailing duty be placed on roses from Israel after finding that Israeli rose producers were subsidized. Reduced interest rates on operating capital and construction grants not shown as debts may help reduce the actual costs of production in Israel, giving Israel an edge on the U.S. market.

Although Israel imports more farm products from the U.S. than we import from Israel, the present trade balance for horticultural products between the US. and Israel is overwhelmingly in favor of Israel. In 1982, the U.S. exported $6.3 million worth of horticultural products to Israel; we received $36.1 million worth of such products from Israel. In 1983, total horticultural product imports from Israel, both duty-free and tariff items, was worth $37,846,000, but the total horticultural exports from the U.S. to Israel was worth $8,144,000.

We favor the reduction of trade barriers between nations and the development of trade on a strictly commercial basis. We also recognize the importance of maintaining and promoting good relations with nations such as Israel. However, we believe any change in current trade relationships must be negotiated to ensure that such changes are mutually advantageous. Prior to acting on this proposal, Israel's relationship with the European Community, and the effect of that relationship, should be carefully examined. We feel that another round of multilateral trade negotiations would be more appropriate, with trade benefits more far-reaching and widespread, than would be bilateral arrangements such as the proposed free-trade area with Israel. U.S. agricluture supports measures for freer trade, but only if there is a fair balance between the value of concessions and counter concessions.

We believe that the subject proposal would not be mutually advantageous . . . rather it would have a serious adverse economic impact on U.S. horticultural producers.

Thank you for your consideration of our concerns on a proposal of grave interest to us.

COOLEY ENTERPRISES, INC.,
Dixon, CA.

DEAR MR. ROSTENKOWSKI: I am writing concerning the proposal by the Reagan Administration to create a free trade area between the United States and Israel.

I am a grower of processed tomatoes in the Sacramento Valley of California and a member of Tri-Valley Growers, a Processing and Marketing Coop.

I would like to propose that procesed tomatoes be excluded from any legislation that would create a "free" trade zone with any nation. I submit that "free" trade exists only in text books and in the minds of academician's not exposed to the reality of the world. No two economies function in the same manner. The processed tomato industry in the United States does not benefit from any kind of direct government subsidy. The processed tomato industry in Israel, Portugal, Italy and Mexico all have benefited direct subsidies in recent years. Therefore "free" trade cannot exist. It appears that this "free" trade proposal is simply a method to give aid or support to a friend or ally when they are in need. If this is true then we should be up front and if necessary supply the aid in a manner that will allow all portions of our economy to help finance the aid.

The processed tomato industry has suffered from huge surpluses, crop destroying rains, low per ton value, excessive interest rates, high value dollar, and staggering cost in inflation. Now our government suggests that we give our markets away in the name of "Free" trade. The tomato industry in the United States is a stable industry; therefore any increase in imports must be followed by a decrease in domestic production and most likely a decrease in selling price.

I am requesting your help on this issue because as an individual I am helpless. In the past our industry has tried to work through the proper U.S. agencies to eliminate unfair trade policies. The results have been ineffective with long costly delays. Imports of tomatoes have gone from several hundred thousand tons to eight hundred thousand tons annually in three years.

The legislature is our last hope. A sense of fairness must prevail.

The world political prolems cannot be solved with a broad brush or white wash. If trade is to be used to aid ones friends then "fair" trade should be the terminology used. Trade through negotiation to insure equality of conditions can be the only true lasting kind of economic building blocks.

I would like to request your support in removing processed tomatoes from any "free" trade legislation that is proposed.

Sincerely,

JIM COOLEY.

STATEMENT OF SAM SNIR, DEHYDRATES INTERNATIONAL, LTD., FOREST HILLS, N.Y.

My name is Sam Snir of Dehydrates International, Ltd. of Forest Hills, New York. Dehydrates International is an importer of dehydrated vegetables from Israel. Specifically, Dehydrates International imports from Deco-Swiss Israel Dehydration Company Ltd. Deco-Swiss is the only factory in Israel processing dehydrated vegetables, save for one other factory that produces only dehydrated parsley.

I am here today to indicate my and my company's support for the proposed Free Trade Area between Israel and the United States. A Free Trade Area, being reciprocal in nature, will help both countries to stimulate economic development. Unlike under the GSP, a one way preferential program, under the FTA U.S. exporters will be afforded duty-free entry into Israel's growing markets.

Dehydrates International Ltd. supplies many types of dehydrated vegetables. Most dehydrated vegetables in the U.S. command quite high prices and imports from Israel have served as a second source of supply to U.S. buyers.

I am aware that the American Dehydrated Onion and Garlic Association has appeared before the Senate Finance Committee and this Committee to argue that, if a Free Trade Area is concluded, dehydrated garlic and onions be excluded from that arrangement. I believe that such opposition to inclusion of dehydrated onions and garlic is misplaced and unfair.

As regards onions, United States production and usage in the last year was 30,000–40,000 tons. The price returned to the U.S. producers was uniform and significant. The reason the price was significant is that the U.S. producers are protected by a tariff of 35%. That is, needless to say, one of the highest tariffs currently in existence on imports into the United States. As a result of the MTN staged reductions, this duty will decline from 35% to 25% by January 1, 1987. However, a 25% duty will still represent a virtual tariff wall.

Currently, Dehydrates International is unable to import dehydrated onions from Israel because of this significant duty. If this duty were eliminated by virtue of a Free Trade Area, Israel would be able to export but would not be in a position to export significant quantities. The maximum potential capacity for production in Israel would be 5,000 tons per year. This potential could only be realized with significant (upwards of $10 million) investment in additional facilities.

In short, as regards dehydrated onions, the United States industry is currently protected by a significant tariff wall. If this tariff wall were removed, Israel still would not be in a position to flood the U.S. market with dehydrated onions. Removal of the tariff would, however, assure U.S. consumers of dehydrated onions of a second source of supply.

As regards dehydrated garlic, generally speaking the same situation exists. The same producers are receiving uniform and significant prices for their product. Production and usage in the United States is about 50,000 tons per year.

The U.S. industry has been able to maintain its significant prices because of a 35% duty, which is not being staged down.

If duty-free treatment were afforded to Israel under the FTA, Israel's potential capacity would be minimal. Even with a significant investment in new facilities, the maximum tonnage that could be produced would be approximately 1,000 tons per year. This certainly does not create a threat to an industry producing 50,000 tons per year.

Finally, let me say that I understand that any free trade arrangements will include safeguard provisions that will allow industries in both countries to petition for relief should they suffer from increased imports. In view of these safeguards, it seems to me that the appropriate approach is not to exclude products from the outset, but to include all products. This will allow all producers to compete equally. Then, if problems arise, producers in both countries will have the right to invoke safeguards protection.

In view of the foregoing, I urge the Subcommittee to support the Free Trade Area and to support it without exceptions.

ENGINEERING & ELECTRONIC DEVICES, INC.,
Los Angeles, CA, May 23, 1984.

JOHN J. SALMON,
Chief Counsel, Committee on Ways and Means,
U.S. House of Representatives, Washington, DC.

DEAR SIR: I wish to go on record as being in favor of a Free Trade Area (FTA) agreement between the United States and Israel.

I am in favor of this FTA agreement for the following reason:

As an exporter to Israel I know that such an agreement would stimulate the exportation of American goods to Israel and thus help to reduce the U.S. balance of payments deficit.

I know this would stimulate trade from personal, face-to-face, conversations with my importers who have repeatedly told me they would import more were it not for the prohibitive tariffs and quotas.

For this reason I trust that the Congress of the United States will look favorably upon such an agreement and will take the necessary action to implement (or aid in the implementation of) a Free Trade Area agreement between the U.S. and Israel.

This letter represents my point of view as a private citizen and as the president of this corporation.

Very truly yours,

HENRY C. LERNER,
President.

STATEMENT OF MILTON FRIEDMAN, SENIOR RESEARCH FELLOW, HOOVER INSTITUTION, AND PROFESSOR EMERITUS OF ECONOMICS, UNIVERSITY OF CHICAGO

I am pleased to have this opportunity to submit a statement in support of the establishment of a free trade area between the United States and Israel.

Such a free trade area would be a significant step toward what should be our ultimate objective: complete and universal free trade. The present extensive tariff and nontariff measures that restrict international trade harm the residents of both the United States and the rest of the world. The residents of the United States would benefit if the United States unilaterally removed the restraints that we impose. We would benefit even more if the other countries did the same.

There is no chance that either the United States or Israel will in fact take the farsighted measure of adopting a full-fledged free trade policy. The political power of the special interests that believe they benefit from the trade restrictions will unfortunately prevent that desirable outcome.

Under the circumstances, we are well-advised to take such steps as are feasible in the direction of tearing down the restrictions that are increasingly hampering the free flow of goods and services among nations, and thereby threatening both peace and prosperity.

Establishment of a free trade zone between the United States and Israel would be such a step. Hence, I support it wholeheartedly as a measure that would benefit us, Israel, and the rest of the world.

GREAT LAKES CHEMICAL CORP.,
West Lafayette, IN, June 4, 1984.

Hon. DAN ROSTENKOWSKI,
Rayburn House Office Building,
Washington, DC.

DEAR MR. ROSTENKOWSKI: The U.S. bromine industry would like to register its strong opposition to an inclusion of bromine and bromine compounds in the proposed Free Trade Area agreement between the United States and Israel.

The U.S. bromine industry is very vulnerable for a number of reasons, whereas the only major foreign producer of bromine and bromine chemicals, the Dead Sea Bromine Group of Israel, is capturing an increaingly large share of world markets.

While important end uses for bromine markets are disappearing and the U.S. manufacturers are struggling to find new products and applications to offset this loss of business, Dead Sea Bromine has just announced a *tripling* of its bromine exports to $230 million worth by 1989. This compares with present *total* U.S. exports of $75-100 million.

While the U.S. bromine producers have to contend with the burdens of various government regulations, the Dead Sea Bromine Group is enormously advantaged by Israeli government ownership, subsidies and regional development assistance.

While the U.S. exporter must pay an average of 10% duty into the major foreign markets, the Dead Sea Bromine Group has already duty-free access to Europe and Japan and therefore enjoys 62% of the Free World merchant market outside the U.S.

Furthermore, on the basis of the most recent Bureau of Mines report:

Bromine use in the U.S. has declined rapidly from 497 million pounds in 1979 to 370 million pounds in 1983—a drop of 25.6%, while Israel's bromine production has increased 52.5% during the same period.

Since early 1979, the price of bromine has dropped 26.5% on an inflation-adjusted basis.

Since 1979, exports of bromine from the United States have declined 55.5%.

The volume of bromine compounds exported has declined by 34% in the last four years.

In the same period, the value of bromine compounds exported from the United States has dropped 39.2%.

An FTA with Israel would mean duty-free access to the United States in one of the most promising areas of bromine chemicals, i.e., flame retardants. Repeated attempts by Israel's Dead Sea Bromine Group to gain duty-free entry into this market under GSP was denied in 1977 and again in 1982 precisely for the compelling reasons of injury to the U.S. bromine industry.

A vote for the FTA without exempting bromine chemicals would have to be construed as a vote against the economic well-being of this country and its people, with a significant loss of jobs inevitable.

Sincerely,

EMERSON KAMPEN,
President.

STATEMENT OF JACK GOLDFARB, CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER, HHC INDUSTRIES, ENCINO, CA

INTRODUCTION

Thank you for the opportunity to testify on the proposed free trade area between the United States and Israel before this distinguished Commission.

My name is Jack Goldfarb. I am Chairman of the Board and Chief Executive Officer of HCC Industries, a holding company with manufacturing subsidiaries in California, New Jersey, Massachusetts, Israel and Ireland. I also serve as a member of the Executive Committee of the Board of Directors of the American-Israel Chamber of Commerce & Industry, Western Region, and Co-Chairman of the High Technology Division of that organization.

I am appearing before this commission in support of a Free Trade Agreement between the United States and Israel.

Our company has been involved in exports to Israel for the past eighteen years and has operated a subsidiary in Israel since 1979. As such, we are keenly aware of the positive effects which would result from a Free Trade Area between the United States and Israel. We believe that HCC Industries and other companies which deal in and with Israel will experience increased production and sales as well as increased employment as a result of the establishment of a Free Trade Area. Therefore, we are in complete support of a Free Trade Area.

HCC manufacturers products through its subsidiary in Israel using raw materials from the United States. Israel currently has a Free Trade Area with the European Economic Community. As such, HCC's subsidiary in Israel markets its products duty-free to European Economic Community Countries.

Moreover, with the duty free benefits from a Free Trade Area, Israel's products, which are normally identified by their high quality, advanced technology, and unique design, will be competitive with their lower priced counterparts from areas like the Far East. The Far East is an area where industry is far more labor-intensive than in Israel. In order to compensate for this disadvantage, Israeli manufacturers utilize high technology production methods which increase product quality while attempting to keep costs at a minimum. They cannot, however, match the lower costs of manufacturers in the aforementioned labor-intensive areas.

Because of the encouragement and emphasis placed on High Technology and the advanced technological capabilities in Israel, we have the benefits of technology exchange and the transfer of know-how and processes between our subsidiary in Israel and our company in the United States. Our chief competitors come from Europe and Japan. With shared technology and a Free Trade Area, HCC Industries would be better able to compete for the United States and world markets against products from these areas.

Due to the success of H.C.C.'s subsidiary in Israel and the inroads it has made into the United States market, we have opened a sales and service subsidiary in the United States. To fully meet the demand from the United States, South America, Canada and the Far East, this subsidiary has recently been enlarged into a production facility which is technically comparable to that in Israel. The United States subsidiary currently receives a subcomponent part from our Israeli subsidiary, then processes it into a final product and tests it. The Israeli subsidiary performs the same functions for other market areas while it also manufactures all of the subcomponent parts which are then processed and distributed by our other subsidiaries. With a Free Trade Area, our Israeli subsidiary, importing duty-free raw materials from the United States, will become fully occupied supplying European Economic Community countries. Therefore, we will again be in a position to enlarge our United States facility to manufacture all of the component parts as well as the final product for its market area.

In order for these products to be competitive with goods manufactured in the EEC for sale in Europe, raw materials from the United States must be allowed to enter Israel duty free. In fact, it would be extremely difficult for HCC to become competitive in some non-EEC countries, such as Spain and Italy without a Free Trade Area between the United States and Israel due to the additional tariffs imposed by those countries.

In addition, with the transfer of technology, know-how and expertise between the Israeli and United States companies, each manufacturing and distributing to their regional markets, we expect increased production, sales and employment both in the United States and Israel.

We believe our efforts can serve as an example of the capabilities and benefits to be derived from trade between the United States and Israel. Due in part to the existing cooperation and initiatives between the two countries, even without a Free Trade Area, we have experienced the development of higher quality, internationally competitive components, with increased sales in Europe and the United States. We have also opened a new facility in the United States and have increased employment both in the United States and in Israel. With a Free Trade Area we envision more growth for our's and other companies.

Israeli manufacturers have the capacity to service niches or select market places in the United States rather than the capacity to penetrate the high volume markets. By comparison, United States manufacturers, with an abundance of raw materials at their disposal and with a Free Trade Area, will be able to compete with European manufacturers in the bulk product markets in Israel. Due to the relative magnitude of the two economies; Israel's economy being a minute percentage of the economy of the United States; as well as the types of industry and production in Israel, the probability of Israeli manufacturers flooding United States markets with inexpensive products is remote. At the same time, a Free Trade Area will increase the market for United States manufacturers in both Israel and, through value-added mechanisms, Europe.

Israel's largest trading partner today is the United States. Twenty-five percent of all Israeli Imports currently come from the United States, while twenty-three percent of Israel's Exports go to the United States. With the removal of tariffs under a Free Trade Area, these numbers can be expected to increase dramatically, especially in the case of United States exports to Israel. The reason to expect a sharper initial rise in United States exports is that many Israeli products currently enter the United States duty Free under the Generalized System of Preferences.

The United States has always been in a favorable position in regard to its balance of trade with Israel. The 1983 United States surplus was in excess of $500 million dollars. With the removal of duties, Israel has the potential to be an even stronger market for products manufactured in the United States.

We at HCC Industries, have made use of the existing mechanisms for joint United States/Israeli ventures, such as the Bi-national Industrial Research and Development Foundation (BIRD-F), funded jointly by the United States and Israeli governments, to develop additional and innovative components. These components and other R&D, carried out under BIRD-F, have helped make HCC Industry's products more competitive around the world. A Free Trade Area would simply take the existing joint initiative of the United States and Israel from the Research and Development stage into the marketplace.

HIRZEL CANNING CO.,
Toledo, OH, June 8, 1984.

Hon. DAN ROSTENKOWSKI,
Longworth House Office Building,
Washington, DC.

DEAR MR. ROSTENKOWSKI: Our family owned and operated food processing company and farms has been in the canning business in Ohio for 62 years. Very seldom do we raise any objections or comments directly to you our elected representatives. We have always felt that our elected officials try to represent the best interests of the public and realize that you cannot bow to every demand.

With regard to H.B. 5377, the granting of a duty-free-status of processed tomatoes and tomato products to Israel and Canada, we must strenuously object.

Our company has always been in favor of free trade, but in this instance, it has been proven that the processed tomato and tomato products industry in Israel is highly subsidized by their government. Even with the present U.S. import duty, Israel consistently undersells we American producers and if the duty is removed then it will be rather disastrous for us in our Eastern Markets.

Our firm provides a rather substantial economic impact here in Northwest Ohio at our three processing locations—Northwood, Ohio; Pemberville, Ohio; and Ottawa, Ohio.

Last year our local payroll was $2 million dollars. The purchase of packaging containers and supplies from Ohio firms was $3 million dollars and our outlay to local farmers for produce was $1.75 million dollars.

At present we employ 80 people on a full time basis and our seasonal employment swells to 250 employees during the summer processing season. Many of these part-time employees are either retired or semi-retired who are supplementing their income. Some are local housewives and many are high school and college students who are trying to pay for their secondary education.

It is my understanding that the House Ways and Means Subcommittee on Trade will be holding hearings next Wednesday and Thursday (June 13 and 14) on this matter and we would appreciate any effort on your part to voice our industry's position.

Very truly yours,

KARL A. HIRZEL, JR.,
President.

STATEMENT OF H.P. CANNON & SON, INC.; CHEROKEE PRODUCTS CO.; MOODY DUNBAR, INC.; MONTICELLO CANNING CO., INC.; AND SATICOY FOODS CORP., PRESENTED BY CHARLES RUSSELL, ADMINISTRATIVE VICE PRESIDENT, MONTICELLO CANNING CO., INC., CROSSVILLE, TENN.

This statement on behalf of the above-named companies urges that there be no reduction in or elimination of the United States most-favored-nation rates of duty on:

TSUS Item No. 141.6000 Pimientos, prepared or preserved.

TSUS Item No. 141.9800 ex Peppers, prepared or preserved.

Summary of position: U.S. imports of these products from Israel are increasing. The increased imports from Israel are displacing U.S. grown and processed products in the U.S. marketplace. The increased imports from Israel under more favorable conditons of market access will threaten the survival of U.S. processors of pimientos and peppers, and their growers and employees. These products should be withheld from the proposed United States-Israel Free Trade Area.

TSUS ITEM NO. 141.60 PIMIENTOS PREPARED OR PRESERVED

Prepared or preserved pimientos are used to enhance the color and add a distinctive flavor to a number of foods. Pimientos are used by restaurant chefs and homemakers to garnish numerous foods. Pimientos also are used by other food manufacturers to add color and flavor to processed cheeses and processed meats.

Approximately three-fourths of the U.S. pack of pimientos is in retail-sized containers (8 ounces or less) of tin or glass and intended for home use. The remainder are packed in institutional size cans (over 8 ounces) for use by other food processors, hotels, restaurants, and other institutional customers.

Pimientos are import-sensitive and the United States most-favored-nation tariff on pimientos has not been reduced since 1948, a period of 36 years, despite a number of multilateral trade negotiations since that time. Although the tariff was converted to an ad valorem rate in 1980 to stop the deteriorating effect of inflation on the specific rate previously in effect, the level of imports has not been diminished. The U.S. International Trade Commission estimated that imports accounted for 41 percent of apparent U.S. consumption in 1982 (see the Summary of Trade and Tariff Information, "Processed Vegetables, n.e.c.," February 1984).

Israel appeared in the U.S. import statistics in 1983 for the first time as a supplier of pimientos. The imports from Israel were in institutional sizes, for which there is virtually no brand loyalty and the only consideration are quality and price. U.S. imports from Israel in 1983 were reported by the Bureau of the Census at 142,682 pounds, the equivalent of almost 6,000 cases of 24 one-pound cans, with a Customs value of $46,270.

On a price-per-pound basis the imports of pimientos from Israel were competitive with imports from other major supplying countries.

Israel has thus demonstrated its ability to sell pimientos in the United States at the current MFN rate of duty. The elimination of the MFN rate of duty on pimientos from Israel (or any other foreign supplier) would be extremely harmful to the domestic industry.

TSUS ITEM NO. 141.98 EX PEPPERS PREPARED OR PRESERVED

Heat-processed (canned) peppers are used principally for their color, green or red. The product is prepared in several different styles of pack—diced, strips, and halves—and packed in No. 10 cans (net contents 105 ounces) and No. 303 cans (net contents 16 ounces). There is no retail market for this product. All of the canned peppers are sold to institutional users for use in potato salad, other salads, and salad dressings, or for repacking as an ingredient in such items as pickle relish and various meat spreads or meat loaves.

As the entire production is sold to institutional customers, there is virtually no brand loyalty, and the only considerations are quality and price. Where there are no brand loyalties or other such marketing advantages, the tariff level is critical.

There are no statistics on the U.S. production of heat-processed (canned) peppers.

Heat-processed peppers are among the miscellaneous vegetable products which are classified in the Tariff Schedules of the United States and in the U.S. import statistics as TSUSA Item No. 141.9800. The U.S. import statistics thus provide a measurement of miscellaneous heat-processed vegetables—including peppers—from Israel.

Canned peppers from Israel are being sold in the United States in direct competition with U.S. canned peppers.

Moreover, as TSUS Item No 141.98 was added to the list of articles eligible for duty-free treatment under the Generalized System of Preferences in 1980, the U.S. import statistics provide a measurement of Israel's penetration of the U.S. market for peppers with the benefit of the duty-free GSP importation.

If the duty-free imports under GSP could be considered a "trial run" on duty-free imports under a Free Trade Area agreement, the results would be highly unsatisfactory. Imports of TSUS 141.9800 from Israel have increased steadily in both actual and relative terms. They are taking a larger share of a growing market.

U.S. IMPORTS OF TSUSA 141.9800

	U.S. Imports, total from all origins (pounds)	U.S. Imports from Israel (pounds)	Imports from Israel as a percent of total imports (percent)
1980	20,412,834	276,100	1.35
1981	12,818,126	235,795	1.84
1982	20,539,509	1,451,340	7.07
1983	22,594,347	1,913,674	8.45

Source: Bureau of the Census.

Not all of the 1983 imports from Israel were entered duty-free under the GSP program. According to the Census statistics, the 1983 imports of TSUS 141.9800 from Israel included 38,801 pounds which were "non-GSP".

Among the many countries listed in the U.S. import statistics, Israel ranked as fifth largest foreign supplier of products classified in TSUS 141.98, following Mexico, Japan, Mainland China, and Taiwan, in both 1982 and 1983.

The duty-free treatment on TSUS 141.98 under GSP gives Israeli producers and exporters a substantial advantage in the U.S.marketplace. But for the GSP treatment, the MFN rate of duty on TSUS 141.98 products from beneficiary developing countries including Israel would be 17.5 percent ad valorem. Our petition for removal of peppers from the GSP list of eligible articles is pending before the USTR for consideration during the upcoming annual review of this program.

Conclusion: The U.S. MFN rates of duty on pimientos (TSUS 141.60) and on heat-processed peppers (ex TSUS 141.98) should be withheld from the Proposed United States-Israel Free Trade Area.

I. Rokeach & Sons, Inc.,
Englewood Cliffs, NJ, May 18, 1984.

Mr. John J. Salmon,
Chief Counsel, Committee on Ways and Means,
U.S. House of Representatives, Washington, DC.

Dear Sir: Our Company, I. Rokeach & Sons, Inc. is a manufacturer of specialty food items. Should the negotiations now under way for a Free Trade Area Agreement between the United States and Israel lead to the implementation of an accord that would end all tariffs and quotas on trade between the two countries, Rokeach's ability to export its line of Kosher products would be immeasurably improved.

The present situation has been a hinderance in our efforts to expand exports to Israel. The implementation of a Free Trade Area would eliminate this hindrance and facilitate our expansion of sales there.

We are confident that such a development will lead to the hiring of additional help right here on our production line. Our plant is located in Farmingdale, New Jersey, and would provide employment for Blue Collar and unskilled labor.

We sincerely believe that a United States-Israel Free Trade Area would be a boon to all concerned.

Very truly yours,

BENJAMIN CHECKANOW,
Vice President.

KASPAR & ESH, INC.,
New York, NY, May 17, 1984.

JOHN J. SALMON,
Chief Counsel, Committee on Ways and Means,
U.S. House of Representatives, Washington, DC.

DEAR MR. SALMON: Kaspar & Esh, Inc. are manufacturing jeweler and importers of jewelry and diamonds. We have been in this business since 1916 and have never imported any jewelry from Israel, though we do import this item from Italy and Yugosalavia.

The reason we cannot and do not use Israeli manufacturers jewelry are:

Israel styling is oriented to Europe and the Far East.

Israel jewelry is high priced, and thus noncompetitive vis-a-vis an American made similar product.

Israel jewelry is very poor quality-wise and thus not acceptable by ourselves and our customers.

For the above reasons we find no threat to the American manufacturers by the Israelis.

Very truly yours,

STANLEY H. STERNBERG,
President.

ECONOMIC CONSULTING SERVICES INC.,
Washington, DC, June 15, 1984.

Hon. DAN ROSTENKOWSKI,
U.S. House of Representatives, Washington, DC.

DEAR CHAIRMAN ROSTENKOWSKI: The Leather Products Coalition recently submitted the attached statement to the Trade Subcommittee in opposition to the proposed U.S.-Israel free-trade area.

The Leather Products Coalition, a group of trade associations and labor unions, opposes the concept of free-trade areas. They are potentially harmful to domestic leather-related industries (footwear, luggage, personal leather goods, handbags, leather wearing apparel and work gloves) and their workers. The fact that such an arrangement might be entered into with Israel makes the harm no less acceptable.

We oppose this legislation because:

Import penetration in the leather products sector even with current duties is already at unacceptably high levels, ranging from 35 to 85 percent. Our industries are already severely damaged by imports. Further import "incentives" such as free-trade areas would give rise to additional imports of our products and cause further damage to leather-related industries. And unemployment, already a staggering 17.8 percent, would rise still further.

In 1983, only 6.9 percent of imports from Israel were dutiable. But it is precisely those items such as leather related-products which are still dutiable that need this duty protection to survive the current flood of imports.

Israel can compete in our market. Wages in Israel's leather products sector are lower sector are lower than comparable U.S. wages. Moreover, leather products comprise an important part of Israel's export sector, accounting for 10 percent of Israel's overall exports.

These highly import sensitive industries have special tariff protection under U.S. trade statutes, either by administrative action or by statute. Footwear and virtually all the other leather-related products are exempt from duty-free treatment under the Generalized System of Preferences and the Caribbean Basin Initiative because of their import sensitivity. Free-trade areas would eliminate tariff protection for these highly import sensitive industries.

The Israel-U.S. free-trade area would set a precedent for other such arrangements. We know, for example, that the Administration is talking to the ASEAN countries—Singapore, the Philippines, Thailand, Indonesia, Malaysia, and Brunei—about such an arrangement and the Administration has made no secret of the fact that it is seeking authority to negotiate many such agreements.

The trade deficit is now predicted to reach $130 billion in 1984. Under such circumstances, the U.S. should not be encouraging additional imports.

Free-trade areas pose long-term implications for U.S. trade policy that have not been well thought out. We weaken the stucture of our mutilateral trading system by conducing our trade affairs on a bilateral basis.

The very special relationship that we have always had with Israel make opposition to an Israel-U.S. free-trade area very difficult. However, an economically weakened United States is not going to be a particularly strong or helpful ally to Israel. Moreover, we do not believe that Israel would want such an agreement to be made at the expense of workers in this country—particularly those low-wage, low-skilled workers who make up the work force in these labor-intensive industries.

The Leather Products Coalition urges you to carefully weigh these factors as the Subcommittee continues deliberations on a proposed Israel-U.S. free-trade area. We believe that the legislation should not be favorably reported.

Sincerely,

STANLEY NEHMER,
President, and Consultant to the Leather Products Coalition.

Attachment.

STATEMENT OF LEATHER PRODUCTS COALITION

This statement is presented on behalf of the Leather Products Coalition, a group of trade associations and labor unions in leather-related industries. The organizations in the Leather Products Coalition are:

Amalgamated Clothing and Textile Workers Union, AFL–CIO
Footwear Industries of America, Inc.
International Leather Goods, Plastics & Novelty Workers' Union AFL–CIO
Luggage and Leather Goods Manufacturers of America, Inc.
United Food and Commercial Workers International Union, AFL–CIO
Work Glove Manufacturers Association

The products of concern to these organizations include footwear, luggage, handbags, personal leather goods, work gloves, and leather wearing apparel.

From the outset, we wish it to be clearly understood that our statement is not directed at the State of Israel, one of our closest allies and friends. What we oppose is the concept of free-trade areas (FTAs) in general and how such a free-trade area might be applied to Israel, for reasons which we address in our statement. Not only are free-trade areas bad trade policy, but they are potentially harmful to domestic leather-related industries and their workers. The fact that such an arrangement might be entered into with Israel makes the harm no less acceptable.

I

The import-sensitivity of leather-related industries

The import-sensitivity of the leather-related industries should not be open to serious question. Both the Executive Branch and Congress have spoken on this issue on numerous occasions. The International Trade Commission has judged both the products of the leather-related industries and some of the industries themselves to be import-sensitive or even imported-injured. On the basis of import-sensitivity, duty-free eligibility under the Generalized System of Perferences (GSP) has been denied for substantially all handbags, work gloves, luggage, personal leather goods, and leather wearing apparel. Furthermore, the Senate Finance Committee has recently voted to statutorily exclude these products from GSP-eligibility in the GSP renewal legislation, S. 1718. Footwear is already statutorily excluded from GSP.

The nonrubber footwear industry has also received two unanimous affirmative findings by the ITC of serious injury from imports under the "escape clause" provisions of the Trade Act of 1974. With imports capturing two-thirds of the U.S. market, the nonrubber footwear industry has recently filed another "escape clause" action, seeking import relief from imports. Leather wearing apparel also received a unanimous affirmative injury determination from the ITC pursuant to its "escape clause" investigation in 1980. Imports from Israel were large enough to be an issue in that investigation.

All of these industries but the leather wearing apparel industry have received technical assistance grants from the U.S. Department of Commerce designed to aid import-impacted industries. Firms and workers in all of the leather-related industries have received adjustment assistance.

Last year, Congress addressed the import sensitivity of the leather-related industry by excluding six leather-related products from duty-free treatment under the Carribbean Basin Initiative (CBI).

Few domestic industries have suffered as much from imports from developing countries as have the leather-related industries; few other industries have experienced such rates of import penetration. Table 1 attached to this statement provides some selected economic indicators of these industries. These data show that 1983 imports penetration rates in leather-related industries were:

	Percent
Nonrubber footwear	64
Personal leather goods	35
Luggage	50
Work gloves	40–45
Leather wearing apparel	56
Handbags	85

These figures show that imports of leather-related products do not need preferential duty treatment to penetrate the U.S. market.

Moreover, more than 21,000 jobs were lost in the leather products industries between 1981 and 1983 alone; the unemployment rate in the leather products sector rose to a staggering 17.8 percent last year. What happens to workers in these industries who have lost their jobs? They cannot count on trade adjustment assistance benefits, this program has been pared to the bone, offering little in the way of a safety net for these unemployed workers. We recall the testimony before the U.S. International Trade Commission of a laid-off worker in the leather wearing apparel industry a few years back. This unemployed worker, a Mr. Tannenbaum from New York, was appearing before the Commission in conjunction with the "escape clause" case on leather wearing apparel. Mr. Tannenbaum, who was 61 years old at the time and had been a worker in the leather industry for thirty-three years, had used up almost all his unemployment and trade adjustment assistance benefits. The following exchange is from the ITC hearing record and is between Mr. Tannenbaum and the attorney for the domestic industry, Donald deKieffer. It concerns trade adjustment assistance benefits.

Mr. DEKIEFFER. Part of this program is retraining?

Mr. TANNENBAUM. Yes, they told me that they would, but nobody ever suggested what they wanted to train me for. I even suggested brain surgeon.

Mr. DEKIEFFER. Have you received any brain surgeon training?

Mr. TANNENBAUM. No. I cannot be retrained to cut pocketbooks because they are out of business. I was for nineteen years a shoe worker in the City of New York, and they are out of business, and I went to garments, and I switched to this.

For thirty-three years I was working with leather, but now they won't train me in leather.

Skill levels of workers in the leather-related industries are often low or not readily transferable to other manufacturing processes. Lack of mobility is a barrier to reemployment, as is age, in many instances. Unfortunately, many workers within these industries fall into the "hard to employ" category. Many workers are also members of minority groups where unemployment is already unacceptably high. In far too many instances, when workers in the leather products sector lose their jobs, reemployment prospects are not particularly good. The theory held by some economists that these workers will find employment in service industries is just that—theory. The reality is that when the local shoe factory closes its doors in a rural part of Maine, or Pennsylvania, or the inner city of New York, the majority of unemployed shoe workers will not find jobs behind the counter of the local McDonald's. Unfortunately, the burden of these lost jobs falls on the communities and people that can least afford it. (Table 2 attached to our statement provides additional employment information in the leather-related products sector.)

II

The probable economic effect of an Israel free-trade area on the leather-related industries is negative

Many would argue that a two-way free-trade area with Israel would be mutually advantageous for the overall U.S. economy. This is certainly not the case. Although the United States ran a trade surplus with Israel in 1982 and 1983, the surplus largely consisted of U.S. military sales to Israel. Moreover, the difference in the size of the populations between the United States and Israel—233 million vs. 3½ million—seriously limits what the United States can export to Israel.

Israel's potential to increase its overall exports to the U.S. market is substantial. The Director General of the Export Institute of Israel predicts that the free-trade area, if implemented, "can double" Israeli exports to the United States, and that the share of Israeli exports directed at the U.S. market would increase from 20 to 40 percent.[1] In 1983, our imports from Israel totaled $1.3 billion, and Israel already benefits from GSP duty-free access to our market on one-third ($403 million in 1983) of its exports to the United States. Israel ranks seventh among the major GSP beneficiaries. In addition to these GSP-duty free imports, most other imports from Israel also enter duty-free. In fact, in 1983, only 6.9 percent of imports from Israel were dutiable. But it is precisely those items which are still dutiable—including import-sensitive footwear and other leather-related products, textiles and apparel which depend on continued tariff protection—whose duty protection would be abolished under this proposal. For example, in 1982, dutiable imports from Israel totaled $80.2 million; of this amount, 21.4 percent represented textiles, apparel and leather-related products.

The Leather Products Coalition is concerned about any free-trade area in a region where the capacity exists for the production and export to the United States of leather-related products. Israel is one of those countries. Certainly Israel has the capacity in-place, and the ability to expand its capacity, to produce and export to the United States a not insignificant volume of leather-related products.

In 1982, U.S. imports from Israel of leather-related products totaled $1.1 million with leather wearing apparel and shoes accounting for the bulk of imports. Even though U.S. imports of leather-related products from Israel have not been very large in recent years, leather products comprise an important part of Israel's export sector. Leather products account for 10 percent of Israel's overall exports, and the leather products industries in Israel employ about 6,000 persons. Production of footwear is about 12 million pairs per year, while production of leather wearing apparel is about 250,000 to 300,000 garments per year. Gross output of "leather and its products" is probably close to $100 million per year.

None of this is overwhelming in comparison to the size of the U.S. industry, but what about Israel's potential as a supplier of these products to the U.S. market? The ease of entry into the production of leather products is a well-known fact. With relatively little capital investment, Israel could substantially expand its leather products sector, and is indeed doing so. Israel is already a significant producer of leather wearing apparel, of which 85 percent is for export. At least two of Israel's leather apparel manufacturers also produce or have plans to produce handbags. As for footwear, a recent article in the magazine, Leather, had this to say on Israel's shoe industry:

"[T]he industry has developed substantially in recent years by acquiring modern machinery and investing in the training of skilled designers. The infrastructure exists as a base for rapid expansion, and the steady increase in exports is a sign of things to come."[2]

The fact that the infrastructure for leather products manufacture is already in place in Israel points directly to Israel's potential to supply.

Both labor costs and product design are key factors affecting Israel's ability to market leather products in the United States successfully. Israel claims to have a worldwide reputation as a fashion leader in the leather apparel area. In the 1980 leather wearing apparel "escape clause" case, a major Israeli producer of leather apparel—Beged Or—referred to itself as "the trend setter in the world of leather fashion." After some troubled years for the company, Beged Or is currently making a comeback in the leather garment market. A June 1983 article in Leather called Israel a "world leader" in the leatherwear field. And in footwear, Israel is also emphasizing fashion and quality of design. This emphasis is clearly with a mind to become a more aggressive international competitor in leather-related products, and with the plethora of trade barriers to leather-related products in the world today, Israel's exports are likely to be directed to the U.S. market.

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[1] Journal of Commerce, Israel Trade and Investment Survey, "Trade Pact Seen Boon for Exports," February 28, 1984, p. lc.

[2] Leather, June 1983, p. 17.

From the standpoint of costs, Israel is also in a strong position to compete in the U.S. market. Although Israeli wages are far above the low wage Far East suppliers of leather-related products, they are substantially below the U.S. wage in the leather-related industries. According to the most recent data compiled by the U.S. Bureau of Labor Statistics, in 1981, hourly compensation rates in the Israeli leather products sector were only one-half of the comparable U.S. rate. Add to this labor cost advantage, zero duty treatment on imports, and the cost advantage grows.

Duties on leather-related products range from 0 to 25 percent, and they do make a difference: Leather wearing apparel (a product which Israel already sends to the U.S. market in sizeable quantities) received duty-free treatment under GSP from 1976 to 1978. Under provisions of the GSP, the duty dropped from just 6 percent to zero. Imports grew dramatically. For example, imports of leather wearing apparel from Korea were $25.3 million in 1975 (before GSP). In 1978, after three years of duty-free treatment, the dollar volume had grown to $114.3 million. Argentina went from $2.9 million in 1975 to $43.9 million in 1978. If Israel were now to get zero-duty treatment on this product, which is no longer eligible for GSP duty-free treatment, Israel would have preferential tariff advantage in our market over the other developing countries. For those leather-related products with current duties substantially higher than 6 percent, we can expect an even greater incentive for Israel to export such products to the United States.

There is another concern with regard to granting Israel duty-free treatment. That is the issue of transshipments, and related to that, rules of origin. While the details of the Israel FTA proposal have not yet been made public, we are greatly concerned over what the rules of origin, (i.e. local content) will be, if any. Even the GSP and the CBI require some degree of local content to ensure the programs are meaningful. Country of orgin requirements are necessary to prevent blatant transshipment of products from third country suppliers seeking to take advantage of the duty-free access to the U.S. market. Similarly, value-added requirements are necessary to prevent the use of the free-trade area to set up repackaging operations. Without these types of requirements, it is a sure bet that countries, such as the Far Eastern countries which already supply the bulk of leather-related products to the United States, will take unfair advantage of a free-trade area in Israel, to the detriment of the U.S. industry.

Clearly, there is a potential for harm to U.S. leather-related industries if Israel is granted duty-free treatment.

III

Policy implications for free-trade area as it affects leather-related products

There is reason to believe that the proposal seeking a free-trade area for Israel is one of many which will be forthcoming from the Administration. The Generalized System of Preferences, of course, will expire on January 1985, and legislation for a remodeled program is currently under consideration. In 1983, Congress passed the Caribbean Basin Initiative, a broad preferential trading providing the Caribbean countries with one-way duty free trade with the United States. There have been recent press reports quoting Ambassador Brock on his intention to seek additional FTA arrangements. Indeed, Canada along with Israel has already been added to the list of such arrangements by the Senate Finance Committee last week. Thus, this is not just about Israel.

We are gravely concerned about apparent efforts to begin negotiating other such bilateral arrangements around the world. Not only are such arrangements antithetical to the multilateral trading system and the most-favored-nation principle, but such arrangements undermine the system through, and indeed encourage, bilateralism. In the process, our whole international trade policy becomes politicized. This is irresponsible trade policy, and should be nipped in the bud. Once such a trade policy is established, we can expect that many more countries or regions will knock on the door looking for special market access. On what basis can we turn them down, having already negotiated preferential trade arrangements for the developing countries (GSP), the Caribbean (CBI), and, now Israel (a free-trade area)? The Administration has already proposed to the ASEAN countries that it enter into negotiations for a free-trade area.

In each instance where the Administration has requested preferential duty treatment for a particular country or region, the Administration has provided specific statistics relating to the case in hand to show that its request will affect only a small portion of U.S. trade and that the projected level of U.S. imports from this area constitutes a relatively inconsequential precentage of total U.S. imports of the total U.S. market. What is left unsaid, however, is the effect of the incremental or cumulative economic impact of several such preferential arrangements on import-sensitive domestic industries. The issue which should be considered by the Subcommittee thus goes beyond the singular economic or policy impact of granting duty-free treatment on imports from Israel. It makes no sense whatsoever to consider the economic impact of each country-region seeking preferential treatment as a separate cause and effect relationship when the impact of the growing patchwork of preferential trading arrangements will clearly be cumulative and, as a result, potentially much more harmful to U.S. import-sensitive industries. To piggyback increased imports, no matter how small, onto the already large and growing volume of imports can be devastating to these industries. Rarely are increased imports under a preferential trading system a replacement of imports from current foreign suppliers—they are in addition to such imports.

IV

Conclusion

The leather-related industries are staggering under an unprecedented level of imports, causing loss of production, market share and jobs. We cannot support any policy which would give still another competitive boost to imports of leather-related products in our market. In conclusion, we are opposed in concept to free-trade areas and we are unalterably opposed to duty-free treatment for leather-related products from any country, including Israel. If this Subcommittee moves forward with H.R. 5377, it should at least exempt leather-related products from the free-trade proposal as it did in the CBI.

TABLE I.—SELECTED ECONOMIC INDICATORS OF THE HEALTH OF THE LEATHER-RELATED INDUSTRIES

	Nonrubber footwear	Luggage	Personal leather goods	Handbags	Leather apparel	Leather work gloves
1977	156,900	17,300	(1)	(1)	6,700	5,500
1980	143,600	16,300	(2)	(2)	8,000	6,100
1981	146,400	15,200	(3)	(3)	7,500	5,700
1982	136,800	14,000	(4)	(4)	(6)	(6)
1983	132,800	13,300	([illegible])	(5)	(7) 6,000	(7) 5,000
	Million prs.	Million dollars	Million dollars	Million units	Million dollars	Thousand dz. prs.
Production/shipments:						
1977	418.4	585.0	369.0	55.8	211.0	3,710
1980	386.3	808.0	426.0	47.9	247.0	2,732
1981	372.0	740.0	442.0	46.5	248.0	2,692
1982	342.4	[7] 683.0	[7] 415.0	38.8	[7] 233.0	2,354
1983	[8] 341.2	[7] 651.0	[7] 398.0	[8]	[7] 221.0	[7] 2,180
	Million prs.	Million dollars	Million dollars	Million dollars	Million dollars	Thousand dz. prs.
Imports:						
1977	368.1	118.0	44.0	207.1	220.4	2,090
1980	365.7	243.2	71.9	350.6	170.9	3,175
1981	375.4	291.9	84.1	406.2	207.1	3,028
1982	497.5	334.8	87.5	409.6	252.0	3,114
1983	581.7	399.9	105.2	476.1	271.6	3,279
Import Penetration [9] (percent):						
1977	47	(8)	(6)	63	51	37
1980	50	(6)	(6)	77	42	54
1981	51	[7] 40	[7] 30	81	47	53
1982	59	(8)	(6)	84	56	57
1983	64	[7] 50	[7] 35	[7] 85	56	60

[1] Total personal leather goods and handbags, 33,100.

[2] Total personal leather goods and handbags, 30,000.

[3] Total personal leather goods and handbags, 30,600.

[4] Total personal leather goods and handbags, 28,200.
[5] Total personal leather goods and handbags, 27,000.
[6] Not available.
[7] Estimated.
[8] Preliminary.
[9] For the luggage and personal leather goods industries, where import and domestic production data are available only in terms of value, import penetration has been estimated.

Source: Economic Consulting Services Inc.; based on U.S. Department of Commerce, International Trade Commission and Bureau of Labor Statistics data (revised March 1984).

TABLE 2.—*Fact sheet on employment in leather-related products industries*

I. Number of employees:	*1983*
Nonrubber footwear	132,800
Luggage	13,300
Personal leather goods handbags	27,000
Leather apparel	6,000
Work gloves	12,000
Total	191,100
II. Profile of leather-related product workers in the United States:	
Bulk of employment in the under 25 or over 60 age brackets.	
One-third are 50 years of age or older.	
Two-thirds of employment are women.	
Hourly wages rank lowest of any non-durable goods industry.	
Minority employment is as high as 75 percent.	
III. Location of production facilities:	
Approximately 27 percent of shoe production facilities are in New England, 26 percent in the Middle Atlantic States, 19 percent in the Midwest and 28 percent in the South and Southwest.	
With respect to other leather-related product industries, 9 percent of the facilities are in New England, 52 percent in the Middle Atlantic States, 13 percent in the Midwest and 26 percent in the South and Southwest.	
IV. Import penetration—1983:	*Percent*
Nonrubber footwear	64
Handbags	[1] 85
Leather apparel	56
Luggage	[1] 50
Leather work gloves	60
All work gloves	40–45
Personal leather goods	[1] 35
V. Tariff rates:	
Nonrubber footwear	[2] Free–20
Handbags	6.5–20
Leather apparel	6
Luggage	6.5–20
Work gloves	4.2–25
Personal leather goods	5.6–20

[1] Estimated.
[2] Trade weighted equals 9 percent.

L. LURIA & SON, INC.,
Miami Lakes, FL, June 11, 1984.

JOHN J. SALMON,
Chief Counsel, Committee on Ways and Means,
U.S. House of Representatives, Washington, DC.

DEAR MR. SALMON: As a very large retailer of gold jewelry produced in the United States and Israel, I am writing to express my support for the proposed free trade area between Israel and the United States.

An arrangement, whereby goods would be freely traded between Israel and the United States, would benefit both economies by promoting economic development and increasing employment and offer the American consumer greater values.

The Manufacturing Jewelers and Silversmiths of America, while apparently supporting the free trade area concept, have requested that gold jewelry be excepted from any such arrangement. I strongly oppose such an exception. Israel's exports of gold jewelry are not causing any adverse impact on United States producers. The amount of gold jewelry exported by Israel to the United States is insignificant when judged by market share.

As an ally, Israel needs duty-free treatment for its gold jewelry in order to compete in this market. Such duty-free treatment benefits U.S. consumers, but does not harm U.S. jewelry producers. Accordingly, I strongly urge the subcommittee to act favorably on the free trade area legislation without excepting jewelry.

Respectfully submitted.

PETER LURIA.

STATEMENT OF PETER W. MAUGER, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NAAS FOODS, INC, PORTLAND, IN

My name is Peter W. Mauger. I am president and chief executive officer of Naas Foods, Inc. located in Portland, Indiana. I am appearing before you on behalf of the 235 employees of my company which operates two tomato processing plants in the state of Indiana and one in California. I am also speaking on behalf of the fourteen member companies of the Indiana Food Processors Association. I have also been asked to appear before you on behalf of mid-west growers and processors.

The Indiana Food Processors Association represents 100 percent of the tomato processors in the state. The fourteen member companies in turn contract produce with several hundred growers throughout Indiana.

We are deeply concerned with the United States-Israel Free Trade Area proposal and its potential adverse effect on the Indiana and mid-west tomato processing industry. The basis of our concern is twofold. First, according to the "Summary of Trade and Tariff Information" for February 1984, which is published by the USITC, total imports in 1982 of canned tomatoes and tomato products was nearly two and a half times the total production of Indiana for 1982 and equalled 70 percent of the combined Indiana and Ohio production. Putting it in another perspective, total imported canned tomatoes accounted for 15 percent of total United States consumption in 1982; and total imported tomatoes, puree, paste and sauce accounted for 24 percent of total United States consumption in 1982. Furthermore, according to the same USITC report, total imports of canned tomatoes and tomato products increased significantly between 1978 and 1982 both in absolute terms and as a percentage of United States consumption. With regard to United States exports they are practically nil representing approximately two percent of United States consumption and have fallen since 1978.

The second reason for our concern is that present duty rates apparently have not served as an effective barrier to imports from Israel. For example, from 1978 to 1983 Israel's canned tomato exports to the United States increased from 10% of total imports to 26% of total imports. Tomato paste in the same period increased from 4.7% to 10.4%. In addition, in 1983 Israel was the number one supplier of tomato sauce to the United States accounting for nearly 70% of the total imports of that item. It is important to note that according to a study by Dr. Leon Garoyan of the University of California, Davis, 85% of Israel's production is marketed in the United States.

I would now like to focus my remarks on the present and potential adverse economic impact that Israel's tomato exports to the United States has and could have upon mid-west growers and processors. To illustrate the damaging consequences of further imports from Israel, I refer you to Table 1.

TABLE 1.—TOMATO PRODUCTION COMPARISON

[Actual tons]

	1978	1982
Indiana	200,000	139,000
Ohio	398,000	368,000
Israel	[1] 161,000	[1] 240,000

[1] Equals metric tons.

Source: Foreign Agricultural Circular, Horticultural Products, February 1983; Foreign Agricultural Service, USDA, p. 10; U.S.D.A. Statistical Reporting Service.

One conclusion from Table I is that Israel's tomato production in 1982 was 172% of Indiana's production and was nearly 65% of Ohio's production. According to a recent on-site study by Dr. Garoyan, Israel is expected to produce 400,000 metric tons in 1984 and has the potential to increase that to 500,000 metric tons with minor additions of equipment. This would be more than double what Israel produced in 1982 and 360% more than what Indiana produced in 1982. Therefore, if

Israel's tomato products are permitted to enter the United States duty-free, Israel's processors would be granted an excellent incentive to expand its capacity. This potential expansion could lead to the destruction of the mid-west tomato growing and processing industry.

Reports from buyers indicate that Israel is exporting a high percentage of its tomato products as canned tomatoes in the $10 (institutional) size. The significance of this fact is that it aggravates the mid-west tomato industry's problem. The mid-west industry is composed predominantly by many small and independent companies which specialize in producing canned tomatoes in the institutional size. Therefore, additional imports from Israel would have a disproportionately adverse effect upon mid-west growers and processors.

Another compelling reason that tomato products should be excluded from the Israel Free Trade Area is the adverse impact it would cause upon an already weakened economy in Indiana and the mid-west. The tomato processing industry is significant to the economy of Indiana and the mid-west. The farm value of mid-west tomatoes in 1982 was $64,000,000. Using the conservative multiplier effect of four, that accounted for over one-quarter billion dollars in mid-west gross product.

In a survey conducted by the Indiana Food Processors Association of its members, sales of Indiana processed tomatoes are in excess of 76 million dollars. Indiana Processors purchase over 19 million dollars of tomatoes, provide over 1,100 part and full-time jobs with a payroll in excess of 16 million dollars. In addition, according to the Indiana Employment Security Division over 5,000 seasonal field and in-plant jobs are created by the Indiana tomato processing industry.

The mid-west is suffering some of the worst unemployment in the nation. In my own county the unemployment rate for January was 17.9%. A major employer in our community has announced effective April 1, 1984 the permanent closing of 50% of its plant. This is expected to increase the unemployment rate to nearly 20% for the month of April. Jay County, Indiana is typical of many counties in the state of Indiana and is not participating in the economic recovery to the extent that many other regions are. My company along with the other tomato processors in Indiana are located in small cities and rural communities which are fighting for survival.

The farming community in Indiana has been hurt by low grain prices the last few years. It has taken a very expensive "PIK" program to help them. Many of these farmers count on raising tomatoes to secure a positive cash flow, and without tomatoes, would be raising more federally subsidized wheat or corn. They would like to expand their tomato acreage if our plants could sell the output. And, I should hasten to add, tomato growers and processors do not receive subsidies.

In view of the above we think it would be inconceivable for the Administration or the Congress to institute measures that would compound the problems of an already depressed economy in Indiana and in the mid-west.

I should like to make one last point. If duty-free treatment is extended to agricultural imports from Israel, there is no mechanism to prevent that country from "back-dooring" subsidized tomato products from other countries such as Greece and Italy. This could very well have the effect of opening the flood gates and drown the domestic tomato industry.

We can conclude by saying that total imports of tomato products have increased significantly in the past five years. Israel's share of those imports has grown dramatically. Additional imports will be devastating to the Indiana and mid-west tomato industry. We believe in fair trade and are not afraid to compete on an equal basis. However, as others have shown this morning, Israel has subsidized their tomato industry, pays its workers significantly less than comparable U.S. industry workers, and has capitalized on U.S. varieties and technology which has been given to them freely. Therefore, the Indiana Food Processors Association requests that the current nominal M F N rates of duty be maintained, and that the three tomato products under consideration be excluded from the Free Trade Area Agreement.

Thank you for permitting me to present our views and for your consideration.

NATIONAL GRANGE,
Washington, DC, May 22, 1984.

Hon. SAM GIBBONS,
Chairman, Subcommittee on Trade, Committee on Ways and Means,
U.S. House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: The National Grange, representing over 400,000 members in 41 states, has some serious concerns over legislation now pending before your Subcommittee that would authorize the President to negotiate bilateral tariff and trade agreements with Israel, resulting in a U.S.-Israel Free Trade Area. It is our understanding that the pending legislation will also provide the President the general authority to negotiate tariff reduction and trade agreements with countries other than Israel.

The Grange is represented on the Agriculture Technical Advisory Committee for Fruit and Vegetables by our Legislative Director, Robert M. Frederick. We, therefore, have followed this matter since it was first proposed by Israel in 1981. The Trade Advisory Committees were established in the Trade Act of 1979 for the specific purpose of making recommendations to the Department of Agriculture and to the United States Special Trade Representative on trade matters affecting agriculture.

The Administration is in a preliminary stage of discussions with Israel. Several meetings between Israel and the USTR have been held where rules of origin, safeguards, staging, anti-dumping provisions and dispute settlements were discussed. To our knowledge, product coverage has not been discussed at this point. This hearing is timely in that respect because we believe that some specific agricultural items deserve special consideration.

Free Trade Areas or customs unions were permissible under the General Agreements on Tariffs and Trade (GATT), as a deviation from Article I (Most Favored Nation Treatment) under Article XXIV, provided the Agreement: Does not disadvantage nonparticipating countries;' covers substantially all trade; and is phased in over a reasonable time period. We believe that the request the Grange and other interested commodity groups will be proposing are permissible under the GATT rules.

At the present time, Israel has negotiated a similar Free Trade Area with the European Community (EC). Under that Agreement, the GATT criteria were not met. It primarily applies to manufactured items as agriculture is outside of the Agreement. Israel was granted preferential tariff treatment on 80% of their agricultural shipments to the EC. In turn, Israel granted tariff concessions on 15 to 25% of EC agricultural shipments to Israel, valued at about 1% of EC export to Israel. The United States should seek a similar agreement on agricultural commodities if a Free Trade Areas is to be established between the U.S. and Israel. In fact, the Grange would support exempting all agriculture commondities from the Agreement.

In 1983 the United States' exports to Israel were valued at $1.7 billion, of that amount, 55% were subject to duties. In turn, in 1983, Israel's exports to the United States were valued at $1.2 billion, but only 10% were subject to duties. The remaining 90% were duty free either under the Most Favored Nation clause or under our Generalized System of Preference (GSP). In 1980, Israel's total agricultural exports to the United States were only 3% of their total exports to the U.S. Agriculture exports from the United States to Israel during that same year were only 18% of our total export to Israel. Of the 3% of Israel export to the U.S., only 27.7% of that amount is subject to a U.S. duty. Likewise, of the 28% U.S. agricultural exports to Israel, only 5.4% are subject to a duty. Agricultural commodities could be exempted and the U.S./Israel Free Trade Area (FTA) would meet the GATT criteria of covering substantially all trade. U.S. agriculture would gain little from an FTA with Israel, but would sustain serious injury to import-sensitive products that are not afforded MFN or GSP treatment and are subject to a duty.

A few examples of import-sensitive commodities that are imported from Israel, and are therefore still subject to a U.S. duty are: (the percentage represents the percentage of total agricultural imports from Israel that are subject to a duty) grapefruit, 62%; oranges (except mandarin), 12%, tomato paste and sauce, 13.6%; grapefruit prepared and preserved, 30%; and tomatoes, 9%. Tomatoes, whole, sauces, or paste, are representative of an import-sensitive product that would be extremely injured by an FTA with Israel. Please find enclosed a chart indicating the imports of these tomato products from Israel over the past six years. It should be remembered that this increase took place even though a substantial duty was accessed. Without any duty, the imports would skyrocket.

The National Grange strongly recommends that all agricutural products be excluded fron the FTA now being negotiated between the United States and Israel. We believe that such an FTA agreement would meet the criteria of GATT and be in the best intrerest of U.S. agriculture.

We appreciate this opportunity to present the views of the National Grange and request that this letter be made a part of the *hearing record*. Thank you.

Sincerely,

Edward Andersen, *Master*.

Enclosure:

TOMATO PASTE IMPORTS FROM ISRAEL 1978–83

	Israel	Total imports	Israel as a percent of total
Pounds:			
1983	16,698,729	160,742,004	12.6
1982	25,048,974	198,029,353	12.6
1981	10,954,188	65,202,175	16.8
1980	314,834	25,465,289	1.2
1979	2,983,998	42,054,052	7.1
1978	2,391.030	50,990,645	4.7

Note.—Prior to 1978 import data for Tomato Paste and Sauce was combined.

Of all Tomato Sauce imported in 1983 Israel accounted for nearly 70%.

TOMATO SAUCE IMPORTS FROM ISRAEL 1978–83

	Israel	Total imports	Israel as a percent of total
Pounds:			
1983	16,476,625	23,626,127	69.7
1982	18,954,172	21,824,299	86.8
1981	8,008,791	9,116,339	87.9
1980	1,299,742	1,651,098	78.7
1979	2,474,353	2,793,422	88.6
1978	6,345,237	7,116,183	89.2

Note.—Prior to 1978 import data for Tomato Paste and Sauce was combined.

Imports of prepared Tomatoes (except Paste and Sauce) in 1983 totaled 186.7 million pounds of which Israel accounted for 26.1%.

PREPARED TOMATO IMPORTS FROM ISRAEL (NOT PASTE OR SAUCE) 1978–83

[Source: Bureau of Census]

	Israel	Total imports	Israel as a percent of total
Pounds:			
1983	48,772,442	186,708,619	26.1
1982	24,713,804	167,017,976	14.8
1981	14,355,621	97,227,954	14.8
1980	4,148,889	39,880,425	10.4
1979	5,497,885	45,566,276	12.1
1978	7,451,889	74,164,976	10.0

Statement of the National Milk Producers Federation

The National Milk Producers is a national farm commodity organization representing dairy farmers and the cooperative dairy marketing associations they own and operate throughout the nation. The Federation's membership represents the producers of a substantial majority of the nation's milk supply as well as being engaged in the production and marketing of the full range of milk and dairy products.

We appreciate the opportunity to comment on the potential impact establishment of a free trade area between the United States and Israel would have on the domestic dairy industry.

The economic concepts underlying creation of free trade zones is the expediting of the flow of goods between the nations or groups of nations involved. This would normally involve nations closely aligned geographically or those with complementary

trade patterns. To be mutually beneficial, the relative strengths of the economies involved should be fairly closely matched.

In this particular instance, these criteria appear to be lacking.

Israel is not considered to be a prime milk-producing nation nor is the dairy industry there a major factor in agriculture. Specific data on the scope of the Israeli dairy industry is lacking, however, when a request to grant Generalized System of Preference (GSP) status to several types of Israeli cheese was considered several years ago, investigation determined that Israel was deficit in milk production and relied on imports to fill a portion of domestic needs.

Despite this deficit, Israel does hold several quotas established under Section 22 of the Agricultural Adjustment Act of the import of cheese into the United States. With the exception of 1983, most of the cheese covered by these quotas has been shipped each year.

While the volumes are not large, it makes absolutely no sense for the United States to be undertaking actions that would effectively reduce the value of competitive imports at a time when domestic producers are making major adjustments and facing substantial economic stress. Late last year, the diary price support level was reduced by 50 cents per hundredweight. This translated into a reduction in the farm price for milk. And additional 50 cents per hundredweight is being deducted from the price of all milk marketed to provide the funds needed to make payments to dairy farmers who have agreed to reduce milk marketings between January 1, 1984 and March 31, 1985.

These steps are being taken to reduce the supply of milk in this country. In addition, dairy farmers are faced with further price reductions of up to $1.00 per hundredweight by July 1, 1985 if the necessary supply-demand balance is not achieved by that time.

Any actions adding to the supply of milk and dairy products in this market will displace domestic production with the displaced milk—rather, the products made from it—winding up in government stocks under the Dairy Price Support Program. Given the conditions of the present dairy program, the American dairy farmer would be the one ultimately paying for such largesse.

A further consideration in this respect must be addressed. With a few exceptions, the import of dairy products into the United States is governed under import restraints established pursuant to Section 22 of the Agricultural Adjustment Act. These limitations were the subject of substantial debate during the Tokyo Round of trade negotiations under the General Agreement on Tariffs and Trade. A major expansion of the quotas resulted from those trade talks.

Removal of the application of Section 22 quotas on products of Israeli origin would open the door to greatly expanded cheese imports by the simple devise of reprocessing highly subsidized cheese produced in the European Community and shipping it to the United States. Given the surplus of milk available in the Community, it is possible that the reprocessing could be bypassed and raw milk shipped to Israel and used to produce the export products.

The provisions of Section 22 are specific on the point that no trade agreement or other international arrangement entered into shall be applied in a manner inconsistent with the requirements of that law. It would appear that this, standing by itself, would require the omission of dairy products from any such plan.

When considering the status of dairy products with regard to the proposal, it should be viewed in the same manner the request to extend GSP status to Israeli cheese was in 1978. At that time, the proposal was rejected by the Trade Policy Staff Committee. Similar treatment should be given this.

STATEMENT OF THE PENNSYLVANIA FARMERS' ASSOCIATION, CAMP HILL, PA

The Pennsylvania Farmers' Association appreciates the opportunity to submit comments to the Subcommittee on Trade of the Committee on Ways and Means of the United States House of Representatives concerning the administration's proposal to establish a free-trade area with Israel. Our association represents 23,430 farmers from across our state and is affiliated nationally with the American Farm Bureau Federation.

We understand that the purpose of this hearing is to receive views on establishment of a free-trade arrangement with Israel and on H.R. 5377 which authorizes the President to enter into, and proclaim modifications in tariff treatment and import restrictions necessary to implement such a reciprocal free-trade agreement. This free-trade area proposal could have a considerable adverse impact on Pennsylvania agriculture, particularly on Horticultural Commodities and products which are competitive with imports which would come in duty-free from Israel. In 1982, Pennsylvania's combined production of principle fresh market and processing vegetables was an estimated 192,700 tons. The processing tomato yield of 84,250 tons from 5,100 planted acres was worth a total of $7,271,000 at the processing plant door.

The members of the Pennsylvania Farmers' Association are strongly committed to the principle of "free and fair" trade, and while the proposed free-trade area under consideration is "free" we do not believe that is is "fair" to Pennsylvania farmers. First, the Israelis would be gaining duty-free access to a market of 234 million people with a gross national product of over $3,310 billion. In return, the United States would be granted duty-free access to a market of about 4 million people with a gross national product of about $21 billion. In 1982, the United States exported $6.3 million worth of horticultural products to Israel while we received $36.1 million worth of such products.

Second, some Israeli horticulrural products are the beneficiary of subsidies as was found by our government with Israeli roses in 1980. The offsetting countervailing duty on roses imported from Israel is annually about 27% ad valorem. Pennsylvania is ranked seventh in the production of cut flowers valued at $137,815,000 in 1982. It seems unfair to broaden such subsidy possibilities at a time when resolutions to many existing subsidy problems has not been obtained by our government in its negotiating efforts.

Third, growers fear that the Israelis may target the United States Market and increase their volume to this country dramatically after receiving duty-free treatment under the United States/Israeli Free-Trade Agreement. Tomato acreage in Israel has already increased from 9,725 acres in 1980 to 16,250 planted acres in 1983. Because of imports, Furman Foods, Inc. of Northumberland, Pennsylvania has already reduced their acreage for 1984 by 14% of intended acreage.

The Pennsylvania Farmers' Association asks that horticultural commodities and products be exempted from the proposed free-trade area with Israel. We have consistantly supported multilateral trade negotiations and feel that another round of such negotiations would be a more appropriate course of action and would result in trade benefits much more far reaching and widespread. We support measures for free-trade, but only if there is a fair balance between the value of concession and counter-concession.

Statement of Murray A. Moskowitz, General Manager and Vice President, Plantex-U.S.A., Inc., Hillsdale, NJ

SUMMARY

(1) Plantex is a small American pharmaceutical company whose parent company, is in Israel.

(2) Plantex U.S.A. deals in generic, raw material drugs. It must import from foreign suppliers, because the large U.S. drug producers do not generally supply drugs for sale to generic manufacturers in the U.S.

(3) Generic drugs by virtue of their lower prices are important and beneficial to American consumers, and to third party payers of drug bills.

(4) Without duty free treatment, one of Plantex' major products (imported from Israel), amitriptyline-hydrochloride, could not compete with that form companies in developed countries such as Switzerland, and Italy, Plantex'; major competitors. Plantex could be forced out of business as a result, and American consumers would pay much higher prices for this product.

(5) Reimposition of higher duties on the product Plantex imports would have a significant detrimental effect on the parent company in Israel which has already suffered major trade set backs due to the loss of two vital export markets, Iran and Africa.

(6) Teva, Plantex' parent company must import its raw materials because of a lack of natural resources. It is, therefore, at a competitive disadvantage with developed countries. Without duty free treatment for its products, Teva would be forced out of the U.S. market.

STATEMENT

My name is Murray A. Moskowitz. I am General Manager and Vice President of Plantex-U.S.A., Inc., a subsidiary of Teva Pharmeceutical Industries Ltd., a pharmaceutical company in Israel.

Plantex imports into and sells in the United States pharmaceutical products manufactured by the parent company and its subsidiaries. We currently benefit from the duty-free provisions of the Generalized System of preferences (GSP) on a major product, amitriptyline-hydrochloride. Without this duty-free treatment, as I will explain shortly, Plantex' total business would be in jeopardy. Thus, I am here before you today to express Plantex' support for a free-trade area with Israel.

Let me begin by explaining that Plantex sells pharmaceutical raw materials to the Generic Drug Industry in the U.S. Like other generic drug suppliers and manufacturers, we are completely dependent upon foreign supplies, because the large U.S. producers of drugs do not generally supply drugs for sale to generic manufacturers in the U.S. We in the generic drug business are convinced, and we are sure that many of your constituents are also convinced that the U.S. consumer should have the option to buy lower-priced generic drugs, wherever, possible. Moreover, many third party payers of drug bills in the U.S., including Federal and State governments, Unions, HMOs, and so forth, are very conscious of the importance of the generic drug industry in providing safe, effective lower-cost drugs. Thus it is important and in the public interest that this supply of generic drugs continue.

One of Plantex' main products now, which we import from Israel, is amitriptyline-hydrochloride, an anti-depressant. The customs duty on this product is 27.7 percent, a veritable tariff wall when added to 10 percent royalties and shipping fees. Since 1982, the product has been classified for duty-free treatment under the GSP. Our major competitors are Italian and Swiss companies. Even without benefit of the GSP, the Italians and Swiss are able to sell the drug competitively in the United States, even though we benefit from the GSP. Obviously, if we were no longer able to receive duty free benefits, we would not be able to compete with the Italians and the Swiss and, as this is a major product line, we could be forced out of business.

In light of this background, you can understand why Plantex-U.S.A. favors both renewal of the GSP and the establishment of a free-trade area with Israel. In your deliberations of what course of action to take, I urge you to consider small importing businesses such as Plantex. We are Americans and we employ Americans. We sell health-care products in the United States at great benefit to American health care consumers. Without duty-free treatment, our most important product, which we import from Israel, would not be competitive in the United States because of competition from drugs produced in developed nations. It is certainly in the best interest of the United States for our product to enter duty-free, for if we are forced out of the market, it is certain that the American consumer will pay more for this product.

I turn now to the effect that reimposition of the high duty would have on our parent company in Israel. If Plantex is unable to sell its parent company's products in the United States, Teva Pharmaceutical in Israel would also suffer significantly. I can illustrate this point with the following example: In 1980, when the American Selling price method of valuation was abolished, the duty on amitriptyline-hydrochloride, which was not then on the GSP, went from 6.6% to 36%. After that date, and before the drug was placed on the GSP in 1982, Plantex sold almost none of it in the U.S.

As a result, the parent company in Israel (then Plantex Ltd., which was later acquired by Teva) suffered serious reverses, forcing the closing of one plant, sale of its assets to another company, and retrenchment at its remaining facilities. Given this history, the impact of reimposing duties would clearly be felt in Israel.

I would like to point out here that Teva has had some other serious trade setbacks in recent years. Its major export markets were in Iran and Africa. For political reasons, these markets are now closed to Teva. As with other Israeli companies, Teva is limited politically to those export markets it can develop. Therefore, the European and U.S. Markets are crucial.

Teva can compete in Europe, where its products receive duty-free treatment, and now it can compete in the U.S. with the GSP. Without duty-free treatment, it will be forced out of the U.S. market. I should point out here that, unlike competing companies producing drugs in developed countries, most of which possess sufficient natural resources for the production of intermediates, Teva must import most of these raw materials used to produce its products. It is thus at a competitive disadvantage vis-a-vis those developed countries. Elimination of duties can help to offset this disadvantage.

Finally, I would like to note that U.S. amitriptyline-hydrochloride can and does enter Israel duty-free. Thus, there is at this time full reciprocity between Israel and the U.S. as to tariff treatment of this drug.

PRODUCTION TOOL SUPPLY CO.,
Warren, MI, May 16, 1984.

MR. JOHN SALMON,
Chief Counsel, Committee on Ways and Means,
U.S. House of Representatives,
Longworth House of Office Bldg., Washington, DC.

GENTLEMEN: Our company has been a leading supplier of industrial tooling for over thirty years. We service nearly 20,000 metal working shops throughout the United States.

While the majority of our suppliers are American manufacturers, in recent years we have been importing high quality tooling from Israel.

In previous years the Japanese were dominating the imported tool business but Israel has recently been able to offer the quality, packaging and price necessary to compete. This ability to compete has been possible since Israel was given the favored nation status under GSP; with well-made products and free of duty, Israel's industrial tooling has carved out a share of the market previously held by Japan, Taiwan and others.

It is our opinion that a free flow of trade between the United States and Israel would be the surest way to allow the new country's industry to grow and, at the same time, allow the United States an open market for its products in Israel.

Beyond the obvious business advantages of increased trade I would like to see closer economic cooperation between the only friendly democracy in the Mid-East and ourselves.

Sincerely,

D.D. KAHN,
President.

STATEMENT OF MITCHELL J. COOPER, COUNSEL, ON BEHALF OF THE FOOTWEAR DIVISION, RUBBER MANUFACTURERS ASSOCIATION

SUMMARY

A free-trade agreement with Israel which does not exclude rubber footwear will have a serious adverse impact on this import-sensitive domestic industry.

Domestic shipments of rubber footwear have shrunk significantly over the past twenty years, and imports have increased significantly over the same period to in excess of 60% of our market.

Rubber footwear duties are admittedly high, but import sensitively is such that these duties were not cut in either the Kennedy Round or the Tokyo Round. Moreover, rubber footwear is excepted by statute from GSP reductions and from the Caribbean Basin Initiative.

In part because Israeli wages are higher than those in the Far East, Israel has not thus far been a meaningful factor in the domestic rubber footwear market, but Israel does have the capacity and skills to enter this market.

If the elimination of duties on rubber footwear is not an inducement for Israel to become a major competitor of this domestic industry, it will not be disadvantaged by the exception of our products form a free-trade agreement. On the other hand, if Israel were to expand its exports of rubber footwear in a duty-free environment, it would endanger the continued existence of the few companies left in this industry.

We note that Israel already benefits from the duty-free provisions of GSP, and it might be appropriate to make avaiiable the somewhat broader provisions of the Caribbean Basin Initiative.

STATEMENT

The Footwear division of the Rubber Manufacturers Association is the spokesman for maufacturers of most of the waterproof footwear and rubber-soled footwear with fabric uppers produced in this country. The names of these manufacturers appear on Attachment #1 to this statement.

A free-trade agreement between the United States and Israel which does not exclude from its terms all waterproof footwear and rubber-soled footwear with fabric uppers is bound to have a serious adverse impact on this import-sensitive domestic industry. Domestically manufactured rubber footwear is an industry which has shrunk considerably through the years as import penetration has increased. This is a problem which was considered sufficiently serious by the Department of Commerce for that Department to issue a special report in June, 1981, dealing with import penetration in this industry. That report noted the steady decline in domestic shipments and steady increase in imports of rubber-soled footwear with fabric uppers between 1964 and 1980. As the figures on Attachment #2 to this testimony bear out, the impact of imports has continued at levels approaching 60% since 1980, and figures for the first two months of 1984 show imported fabric-upper rubber-soled footwear taking 65.3% of our market.

The duties on rubber footwear are admittedly high, ranging from 20% to about 76%. With one very minor exception these duties were not cut in either the Kennedy Round of the Tokyo Round of Multilateral Trade Negotiations. All of this footwear, as well as non-rubber footwear, is excepted by statute from GSP reductions, and the bill extending GSP, currently pending before this Committee, would continue the exception for all footwear. Moreover, the recently enacted Caribbean Basin Initiative excepts all footwear from the terms of the one-way duty-free treatment provided by that statute.

Time and again the rubber footwear industry has gone before agencies of the Federal Government and Committees of the Congress to demonstrate the significant threat which would be posed by any lowering of the duties on the products of this industry. Invariably the Government data on which we relied persuaded the agency or Committee in question of the merits of our case. Some sense of the domestic industry's long-range deterioration can be gleaned from the fact that twenty years ago domestic shipments of rubber soled footwear with fabric uppers were 162 million pairs, in contrast to 74 million in 1983. Over this same period imports increased from 29 million to 102 million. The figures for waterproof footwear are equally depressing and appear on Attachment #3. (Attachment #3 does not go back beyond 1978 because that was the first year the Government published figures for the waterproof segment of the industry.) In 1978 domestic production of waterproof footwear was approximately 30 million pairs, in contrast to 10 million in 1983. Imports of waterproof footwear in 1978 constituted 32.4% of domestic consumption and rose to 59.1% of domestic consumption in 1983.

The employment figures on Attachment #4 are a further indication of what has happened to the domestic rubber footwear industry. Our production employment has shrunk steadily from 26.3 thousand in 1973 to 15.6 thousand in 1983.

The domestic rubber footwear industry is efficient, well managed, and throughly modernized, but it is also labor-intensive, with labor accounting for almost 50% of the total cost. Despite the admittedly high traiffs applicable to the products of this industry, low-cost imports have had no difficulty in finding their way to this market. High duties and great distance have not prevented imports from Taiwan, Korea, and, more recently, the People's Republic of China from achieving a frightening level of penetration. It is true that Israel has not thus far been a meaningful source of imports, attributable in part to the fact that Israeli wage rates are higher than those in the Far East. But Israel does have the capacity and skills to manufacture high-quality rubber footwear, and the potential for a substantial new duty-free market is indeed likely to bring that capacity and those skills to the fore. We are aware, for example, of at least one boot factory in Israel whose products have enjoyed success in the Common Market as a result of the free-trade agreement between Israel and the EEC.

I have heard it said that the rubber footwear industry need not worry about a free-trade agreement with Israel because that country would prefer concentrating its export efforts on hightech industries. To the extent that this argument is valid, Israel would not be disadvantaged by expecting the products of the rubber footwear industry from a free-trade agreement. On the other hand, if our concern is justified that the elimination of the high duties on rubber footwear would be an incentive to the rapid expansion of Israel's footwear industry, the relatively few domestic companies left in this country would become a truly endangered species.

We share our Government's concern for Israel's serious economic problems, and we recognize that a healthy Israeli economy does have importance to the United States. We also recognize that there are some American industries which would benefit from a free-trade agreement with Israel. Unfortunately, rubber footwear is not one of those industries.

Israel already benefits from the duty-free provisions of GSP. Perhaps it would be appropriate to make available to it the somewhat broader provisions of the Caribbean Basin Initiative. We are however, firm in our view that it would not be appropriate to endanger what is left of the American rubber footwear industry by providing Isreal, or any other country, easier access to our market than it now enjoys.

[Attachment No. 1]

MEMBERS OF FOOTWEAR DIVISION OF THE RUBBER MANUFACTURERS ASSOCIATION

Converse Inc., Wilmington, Massachusetts.
Etonic, Inc., Brockton, Massachusetts.
Fun Footwear Company, West Hazelton, Pennsylvania.
Gold Seal Rubber Company, Boston, Massachusetts.
Kaysam Corporation of America, Paterson, New Jersey.
LaCrosse Rubber Mills Company, LaCrosse, Wisconsin.
New Balance Athletic Shoe Inc., Boston Massachusetts.
Prevue Products Company, Manchester, New Hampshire.
Tingley Rubber Corporation, S. Plainfield, New Jersey.

[Attachment No. 2]

RUBBER-SOLED CANVAS-UPPER FOOTWEAR; SHIPMENTS, IMPORTS, EXPORTS, APPARENT CONSUMPTION AND RATIOS 1964–83

[Figures are in thousands of pairs]

	Shipments [1]	Imports [2]	Exports [3]	Apparent consumption	Percent imports to consumption
Year:					
1983	[4] 74,244	102,494	1,303	175,435	58.4
1982	[4] [5] 88,630	98,038	1,690	184,978R	53.0
1981	[4] 95,392	137,631	1,559	231,465	59.5
1980	[4] 72,037	123,770	1,693	194,114	63.8
1979	[4] 71,138	111,392	1,218	181,312	61.4
1978	[4] 83,435	172,706	644	255,497	67.6
1977	91,230	105,610	[6] 1,201	195,639	54.0
1976	119,726	115,399	[6] 1,218	233,907	49.3
1975	129,002	73,083	[6] 868	201,217	36.3
1974	144,496	67,352	[6] 1,010	210,838	31.9
1973	148,575	66,291	29	214,837	30.9
1972	159,399	58,020	105	217,314	26.7
1971	156,489	62,872	112	219,249	28.7
1970	145,865	49,726	129	195,462	25.4
1969	140,575	44,463	195	184,843	24.5
1968	152,257	49,200	239	201,218	24.5
1967	153,656	44,659	211	198,104	22.5
1966	157,491	35,060	167	192,384	18.2
1965	165,741	33,363	195	198,909	16.8
1964	162,151	29,063	225	190,989	15.2

[1] U.S. Census Bureau, Current Industrial Reports (Series M31A).
[2] U.S. Department of Commerce IM 145X Report on Imports.
[3] RMA 59 for 1964 to 1973; U.S. Exports Schedule B for 1974 to 1982.
[4] 1978 to 1983 represent Domestic Production while prior years indicated. Domestic Shipments.
[5] Revised from those figures previously published.
[6] Figures presented include protective footwear.

Note.—Figures presented here reflect the latest available data and contain all corrections and revisions for past years.

Source: Management Information Services.

[Attachment No. 3]

RUBBER AND PLASTIC PROTECTIVE FOOTWEAR; IMPORTS, EXPORTS, APPARENT CONSUMPTION AND RATIOS 1978–83

[Figures are in thousands of pairs]

	Production [1]	Imports [2]	Exports [3]	Apparent consumption	Percent Imports to consumption
Year:					
1983	9,704	13,542	332	22,914	59.1

RUBBER AND PLASTIC PROTECTIVE FOOTWEAR; IMPORTS, EXPORTS, APPARENT CONSUMPTION AND RATIOS 1978-83—Continued

[Figures are in thousands of pairs]

	Production [1]	Imports [2]	Exports [3]	Apparent consumption	Percent imports to consumption
1982	[4] 14,125	11,108	412	[4] 24,821	44.8
1981	9,840	7,480	484	16,836	44.4
1980	25,777	7,556	650	32,683	23.1
1979	28,732	12,642	675	40,699	31.1
1978	29,639	13,947	516	43,070	32.4

[1] U.S. Census Bureau, Current Industrial Reports (Series M31A).
[2] U.S. Department of Commerce IM 145X Report on Imports.
[3] U.S. Exports EM 546 Schedule No. B.
[4] Revised from those figures previously published.

Source: Management Information Services.

[Attachment No. 4]

PRODUCTION EMPLOYMENT, RUBBER AND PLASTIC FOOTWEAR

	1983	1984
January	15.4	
February	15.1	
March	15.5	
April	16.2	
May	16.4	
June	16.7	
July	15.0	
August	16.1	
September	15.9	
October	15.0	
November	15.5	
December	[1] 14.9	
Annual average:		
1973	26.3	
1974	25.3	
1975	22.3	
1976	21.6	
1977	20.9	
1978	21.0	
1979	19.9	
1980	19.8	
1981	19.6	
1982	16.7	
1983	[1] 15.6	

[1] Preliminary.

Source: Bureau of Labor Statistics.

Sporting Arms and Ammunition Manufacturers' Institute, Inc.,
Wallingford, CT, June 5, 1984.

Hon. Sam M. Gibbons,
Chairman, Subcommittee on Trade, Committee on Ways and Means
U.S. House of Representatives, Washington, DC.

Dear Mr. Chairman: The Sporting Arms and Ammunition Manufacturers' Institute ("SAAMI") would like to express its deep concern about the impact of legislation to liberalize further international trade with Israel. Enclosed for your information and for the record is a copy of SAAMI's April 2, 1984, comments to the International Trade Commission on the proposed free trade area agreement with Israel.[1]

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[1] Attachments to the comments are retained in subcommittee files.

As indicated therein legislation or agreements which would preclude "graduation" of Israel from GSP benefits would place the U.S. industry at a continued competitive disadvantage with the Israel state-owned sporting arms and ammunition industry.

Thank you for your consideration.

Very truly yours,

HARRY L. HAMPTON, Jr.,
Executive Director.

Enclosure.

STATEMENT CONCERNING THE PROBABLE ECONOMIC EFFECT OF THE PROPOSED FREE TRADE AREA WITH ISRAEL ON THE U.S. SPORTING ARMS AND AMMUNITION INDUSTRY

This statement is being submitted on behalf of the Sporting Arms and Ammunition Manufacturers Institute ("SAAMI") in response to the February 9, 1984 notice announcing an investigation concerning the probable economic effect of providing duty-free treatment for imports from Israel on United States industry producing like or directly competitive articles and on consumers. 49 Fed. Reg. 5841 (February 15, 1984).

SAAMI is a trade association whose members include U.S. producers of sporting arms and ammunition—the industry which faces potentially serious adverse consequences from the proposed free trade area with Israel. SAAMI opposes the creation of a free trade area with Israel for the following reasons:

First, the U.S. sporting arms and ammunition industry is susceptible to competitive injury from low-priced imports and is in need of the continuation of safeguards which accompany the Generalized System of preferences (GSP) program. The relevance of those safeguards to the ammunition industry was firmly established in the President's 1983 decision to remove the Republic of Korea from the list of beneficiary developing countries for imports of centerfire rifle and pistol cartridges.

Second, the Israeli sporting arms and ammunition industry is well developed and is capable of producing large volumes of products which are being sold in the United States at prices substantially below the prices of comparable domestic products. The potential for injury to the domestic industry is as great from Israeli imports as it is from Korean imports. Therefore, the safeguards that are built into the GSP program should be maintained for Israel.

Third, no significant benefits would be received by the domestic industry as a result of the establishment of a free trade area, since there are no significant markets in Israel for sporting arms or ammunition.

INTEREST OF SAAMI

SAAMI is an industry trade association comprised of companies which manufacture firearms, ammunition and component parts for ammunition reloading.

Virtually the entire United States ammunition industry is represented in this petition. In addition, a large portion of the domestic sporting arms industry is represented. Specifically SAAMI members include:

Browning Arms Company, Morgan, Utah; Federal Cartridge Corporation, Minneapolis, Minnesota; Harrington & Richardson, Inc., Gardner, Massachusetts; Hercules Incorporated, Wilmington, Delaware; Ithaca Gun Company, Ithaca, New York; O. F. Mossberg & Sons, Inc., North Haven, Connecticut; Remington Arms Company, Inc., Bridgeport, Connecticut; Smith & Wesson, Springfield, Massachusetts; Sturm, Ruger & Co., Inc., Southport, Connecticut; Thompson/Center Arms, Rochester, New Hampshire; and Winchester Group, Olin Corporation, East Alton, Illinois.

RELEVANT PRODUCTS

This statement pertains to the following products:

Pistols and revolvers, valued over $8 each (TSUS 730.1900).

Rifles, valued over $50 each, autoloading, centerfire (TSUS 730.3120).

Rifles, valued over $50 each, centerfire, others (TSUS 730.3180).

Cartridges containing a projectile, for rifles or pistols, other than .22 Caliber (730.9400), NSPF (730.9400).

Cartridges containing a projectile, NSPF (730.9500).

Empty cartridge shells, for rifles or pistols (730.9665); NSPF (730.9675); including blanks (730.9685).

A. The U.S. sporting arms and ammunition industry is susceptible to competitive injury and is in need of the safeguards inherent in the GSP program

Israel currently enjoys duty-free access to United States markets under the GSP program. For those imports that have not been excluded from GSP treatment, such as sporting arms and ammunition, creation of the proposed free trade area would remove the safeguards that have been built into the GSP program to protect domestic industries from injury from duty-free imports. The safeguards are necessary elements of any duty-free treatment given to Israel—particularly for the sporting arms and ammunition industry. Their removal would place the domestic industry at the mercy of one of the best equipped defense industries in the world.

1. GSP program safeguards.—The GSP program is authorized by the Trade Act of 1974, 19 U.S.C. §§ 2461, et. seq. In recognition of the potential harm to domestic industries that can be caused by low priced import the Act provides several safeguards.

The essential safeguard is the recognition that the President needs the flexibility to modify the treatment given any particular for any particular product when circumstances warrant. Recognizing that permanent duty-free status might be used to injure the domestic industry and might impede the ability of other less developed countries to compete, Congress provided that the President may withdraw, suspend or limit the application of duty-free treatment with respect to any article or any country. 19 U.S.C. § 2464. Among the factors to be considered by the President in exercising his discretionary authority is the anticipated impact on United States producers of like or directly competitive products, 19 U.S.C. § 2462(c).

In addition to the President's discretionary authority to withdraw duty-free treatment, which would be lost under the free trade treaty, Congress required that the President withdraw GSP treatment for a particulr article imported from a particular country if one of two "competitive need" tests is met:

(a) The country has exported (directly or indirectly) to the United States during a calendar year a quantity of an eligible product having an appraised value in excess of a certain amount. 19 U.S.C. § 2464(c)(1)(A).

(b) The country has exported (directly or indirectly) to the United States a quantity of an eligible product which is valued at or above 50 perecent of the value of the total imports of that product during the calendar year. 19 U.S.C. § 2464(c)(1)(B).

These provisions were designed to ensure that duty-free treatment is not given to countries that are exporting to the United States in volumes which may adversely affect the domestic industry or competing less developed countries. They would be given up if the proposed free trade area is accepted.

2. Continuing need for safeguards.—The United States ammunition industry has recently demonstrated to the Commission that it is in need of the safeguards built into the GSP program. In Case No. 82-69 SAAMI sought removal of the Republic of Korea from the list of countries receiving GSP treatment for imports of centerline cartridges. The petition appealed to the President's discretionary authority to remove countries from the GSP program for specific products under certain specified conditions. The SAAMI petition justified its request by demonstrating that the Korean ammunition industry was fully developed and that Korean imports of centerfire cartridges were priced so low, with the help of duty-free treatment, that they were having a severe adverse impact on the United States ammunition industry.

In support of its petition, SAAMI demonstrated:

That the centerfire cartridges are generally a fungible commodity in which price is the determinative factor in marketing;

That the United States industry was characterized by underutilized capacity;

That by reason of its low prices, the Korean industry had captured a substantial share of the United States market for centerfire rifle cartridges and was beginning to expand it sales into pistol cartridges;

That removal of GSP benefits for Korea would help reduce the injury to the United States centerfire cartridge industry and would therefore advance the economic interests of the United States;

That the Korean ammuniton industry was well developed and highly competitive in the international marketplace;

That the Republic of Korea was sufficiently developed to participate in the President's graduation policy.

SAAMI also showed the devastating impact of competition with low priced imports on the profitability of United States firms. For example, when Winchester attempted to meet the Korean price on a popular type of cartridge by reducing its distributor price, the profitability of this product was eliminated.

The SAAMI petition was granted, and following evidentiary submissions, the President agreed that duty-free treatment for Korea should be withdrawn under the discretionary graduation policy. 48 Fed. Reg. 13921 (April 1, 1983).

A copy of the SAAMI Post-Hearing Brief in Case No. 82-69 is being submitted herewith as Attachment 1. (Both confidential and non-confidential versions of Attachment 1 are being submitted.) The information submitted in Case No. 82-69 demonstrates the continuing need for safeguards against low-cost high-volume imports of ammunition.

B. The Israeli sporting arms and ammunition industry poses a substantial threat to the relevant U.S. industry

The Israeli arms and ammunition industry is a well-developed competitor in the international marketplace, is capable of selling large quantities at prices well below the prices of the United States industry, and poses a substantial threat to the domestic industry.

Israeli ammunition and most Israeli firearms are produced by Israel Military Industries (IMI).[1] Ammunition is sold in the United States under the trade name "Samson," which is marketed by Action Ammo Ltd., an affiliate of Action Arms Ltd. Action Arms and Magnum Research distribute firearms produced by IMI. Smokeless powder is marketed by Accurate Arms, another affliate of Action Arms.

1. Israel's government arsenal is in direct competition with United States industry.—IMI is reported to be a wholly owned instrumentality of the Israeli government. It is the supplier of arms and ammunition (as well as heavy military armament, such as tanks, aircraft, and large caliber weapons) to the Israeli defense forces. In the United States, IMI's USA Marketing Office is located at the Israeli Embassy, 3514 International Drive, N.W., Washington, D.C.

In IMI the United States industry faces competition with a major government arsenal. Although the United States government arsenals do not compete with the private section in commercial markets, Israel's arsenal is free to compete. As a result, IMI sells large volumes of ammunition to sporting markets in the United States at low prices.

2. IMI's production facilities have more advanced equipment than any United States domestic producer.—IMI's production facility is modern and efficient. It uses the best available equipment to produce 7.62 centerfire cartridges. The production system is the result of the Small Caliber Ammunition Modernization Program (SCAMP)—an expensive system developed by several United States companies which is used in the United States only by the United States government arsenal in Lake City, Missouri. It is the most efficient, high-speed system available for the production of ammunition, capable of producing 1200 rounds per minute.

IMI also has a sophisticated automated electronic online inspection system. For pistol cartridges, IMI uses a modern system of high speed, efficient automated plate loading. In addition, it has high speed Manurhin centerfire loaders.

IMI is a fully integrated manufacturing facility producing all essential components for small arms ammunition—cartridge cases, projectiles, primers and propellant powders.

The current IMI catalogue states: "It is safe to say that nowhere in the world is greater care taken and stricter quality control exercised than in Israel Military Industries (I.M.I.) modern factories, equipped with the most advanced means of production, and staffed by technicians and experts with decades of experience.

"Since I.M.I. requires absolute assurance that their standards are met, everything in the cartridge is made by them; case, primer, propellant and projectile. Each round is subjected to over 125 quality control procedures." (Attachment 2.)

In its 1983 brochure, IMI claimed to be "the most advanced manufacturer in the world." (Attachment 3.)

3. IMI's prices are far below United States domestic producer prices.—IMI sells ammunition in the United States at prices far below the prices of United States producers. Table 1 contains the dealer prices for various cartridges sold by IMI in the United States. Also listed in Table 1 are the average suggested retail and dealer prices for comparable items sold by three United States producers. The IMI 1984 list is Attachment 4.

When Israel's high inflation rate and high labor costs are considered, IMI's extremely low prices for sales in the United States are probably not sufficiently high for full cost recovery. It appears that the Israeli government may be subsidizing its defense industry to enable IMI to market in the United States at prices that are drastically below domestic producer prices.

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[1] Sirkis Industries also is a producer of certain firearms. SAAMI does not know whether there is any connection between IMI and Sirkis.

TABLE 1

Cartridge	Suggested retail prices (per box)		Suggested dealer prices (per box)	
	IMI	Average U.S. producer	IMI	Average U.S. producer
223 Remington metal case	5.44	11.44	4.08	7.92
Winchester soft point	8.77	14.27	6.58	10.97
380 auto pistol metal case	11.73	17.73	8.80	13.48
9MM Luger metal case	12.95	21.53	9.71	16.37
38 special	12.15	16.36	9.11	12.44
357 magnum	14.13	22.75	10.60	14.75
45 automatic	15.64	24.50	11.73	15.57

A review of the available reports of imports for consumption in the United States reveals that IMI is capable of selling large quantities of ammunition in this country. In 1982, Israel was second only to Korea in total exports to the United States of centerfire cartridges in TSUS 730.9400, having imported cartridges valued at $1,188,341. Although Israeli exports to the U.S. declined in 1983, the decline might be attributed to military demands for IMI ammunition in 1983. Israel clearly is capable of exporting large volumes into the United States.

Further evidence of IMI's ability to compete with extremely low prices in the international marketplace can be found in the following results of sealed bids for supplying ammunition to the United States Department of Justice and the United States Army at the Rock Island arsenal:

29,444,000 rounds of 45 cal. ball—IMI at $115.90/1,000.
Next lowest bidder—Olin at $126.30/1,000.
614,100 rounds of 380 cal. ball—IMI at $96.00/1,000.
Next lowest bidder—Olin at $103.70/1,000.
6,856,000 rounds of 45 cal. wadcutter—IMI at $109.77/1,000.
Next lowest bidder—Olin at $130.08/1,000.
863,000 rounds of 9mm Ball for Justice Department—IMI at $139.00/1,000.
Next lowest bidder—Remington at $144.90/1,000.
347,000 rounds of 223 Rem. SP for Justice Department—IMI at $137.95/1,000.
Next lowest bidder—Federal at $160.25/1,000.
54,000 rounds of 7.62 SP for Justice Department—IMI at $239.95/1,000.
Next lowest bidder—Remington at $262.50/1,000.
67,000 rounds of 45 cal. for Justice Department—IMI at $138.00/1,000.
Next lowest bidder—Remington at $144.00/1,000.
4,182,000 rounds of 45 cal. match grade—IMI at $135.00/1,000.
Next lowest bidder—Olin at $152.00/1,000.

Since July 1983 IMI has taken approximately $4.6 million in government bid business from American producers.

With regard to firearms, IMI, through Action Arms and Magnum Research, has commenced a significant firearms marketing effort in the U.S. Imports of centerfire rifles from Israel in 1982 were $4,848,000. As in the case of ammunition, the decline in 1983 to $2,762,000 appears attributable to Israel military requirements. Examples of sales literature on IMI products and trade show participation are contained in Attachment 5.

The Preliminary Report of the 1982 Census of Manufacturers for Small Arms (Industry 3484)[2] indicates that this industry has declined considerably between 1977 and 1982. The value of total small arms shipments in 1982 was $902.4 million. In 1977, the value was $662.6 million. If the 1977 figure is converted to 1982 dollars, however, it would be $1,055.4 million. Thus, in constant dollars, the small arms industry shrunk from 1977 to 1982.

The threat to the United States sporting arms and ammunition industry from the Israeli defense industry is equal to the threat to the United States ammunition industry. Israel is using its military production capability to produce arms and ammunition for sale in direct competition with private United States firms. Just as the threat was recognized by the Commission in the case of Korea, it should be recognized here. The safeguards of the GSP program are needed and should be continued.

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[2] U.S. Department of Commerce, Bureau of the Census, "1982 Census of Manufacturers, Preliminary Report, Industry Series" (February 1984).

No benefits will accrue to the domestic industry as a result of the free trade area

There is at present no significant market for the products of the United States sporting arms and ammunition industry in Israel. Total U.S. exports of sporting arms and ammunition to Israel were only $691,000 in 1982 and $336,000 in 1983. Therefore, the establishment of a free-trade area will produce no benefits to offset the risk of growing Israeli imports into the United States.

CONCLUSION

The establishment of a free-trade area with Israel would expose the United States sporting arms and ammunition industry to a significant threat of imports from a well-equipped foreign government instrumentality. The utility of the graduation policy built into the GSP program to provide sporting ammunition industry was well established information of Korean imports. The products of the Israeli defense industry present a similar threat. The current system in which duty-free access to American markets in subject to constraints at the discretion of the President when necessary to protect the domestic industry should be continued.

SAAMI urges the Commission to recognize the threat posed by Israeli imports and to advise the President that the probable effect of providing a free trade area for Israel will be substantial injury to the United States sporting arms and ammunition industry.

STATEMENT OF BARRY SYTNER, STUART FINDINGS, INC., NEW YORK, NY

This statement is submitted on behalf of Stuart Findings, a U.S. importer of gold jewelry from Israel. Stuart Findings supports the proposed Free Trade Area (FTA) between Israel and the United States as it will expand two way trade in gold jewelry, to the benefit of both the Israeli and U.S. jewelry industries.

I have just returned from Israel and I appreciate the opportunity to share my views with the subcommittee. I am, of course, aware that the Manufacturing Jewlers and Silversmiths of America (MJSA) has opposed the inclusion of gold jewelry in the FTA. The MJSA basis this opposition on a fear that under an FTA, Israel is likely to increase exports of gold jewelry to the detriment of the U.S. industry. This fear is, in my opinion, unwarranted.

Precious metal jewelry production in Israel is in its infancy. It is truly a cottage industry with about 600 manufacturing firms employing about 2,500 persons. The vast majority of the firms employ less than 25 people. By contrast, the Italian gold jewelry industry is comprised of nearly 2,000 firms, one of which is Gori Zucchi S.P.A., the largest producer of gold jewelry in the world.

Most of Israel's jewelry exports to the United States enter duty-free under the GSP. This duty-free treatment was essential to the development of Israel's industry and is vital to maintaining the current level of exports. Duty free benefits are necessary because Israel must compete directly with Italy for sales in the United States. And, because the quality of Israel's jewelry is not comparable to Italy's or to that produced in the United States, without duty-free treatment, Israel would effectively be shut out of the U.S. market.

The United States International Trade Commission alluded to Israel's problems in 1981 as follows:

> [Israel] is unlikely to increase its U.S. market share significantly due to the following:
>
> (1) The quality of its precious metal jewelry is not generally considered to equal that of domestic or Italian producers, the principal suppliers of U.S. imports;
>
> (2) U.S. producers, because of market proximity, are able to respond more quickly to market changes and production orders; and
>
> (3) U.S. producers have a technological advantage in the production of goldfilled jewelry, the jewelry form which is rapidly expanding in the U.S. due to the high level of gold prices.

Imports from Israel are not adversely affecting the U.S. industry. In 1982, Israel's exports of precious metal jewelry to the U.S. were $92 million. Italy's exports in that year amounted to $516.5 million, or 5 times Israel's. Of total imports in that year of $864.2 million, Israel's share was slightly over 10.6%, while Italy's share was 59.8%. (See Table 1 attached).

The import picture did not change significantly in 1983— except that Israel actually lost share of the import market. Israel's share of the import market declined in 1983: of total imports of $1,056 million, Israel had $96 million, or 9.1%. Thus, although imports of precious metal jewelry into the U.S. increased in 1983 over 1982, Israel's share of imports declined from 10.6% to 9.1%. In addition, in 1983, Israel's share of gold chain imports (the product of greatest concern to the MJSA) was only 12.5%, as compared to 75.2% for Italy. (See Table 1.)

In terms of total U.S. consumption, Israel's share of the precious metal jewerly market is minimal. The MJSA estimates total apparent consumption in 1982 to have been $3.5 billion. Israel's share of the whole market was about 2.5% in the that year. It was likely even less in 1983.

In testimony before the Senate Finance Committee, MJSA noted:

The domestic jewelry manufacturing industry is slowly beginning to emerge from a depressed condition due to the nationwide recession, inflation, and volatility of precious metal prices.

This improvement has occurred even though 97% of Israel's imports into the U.S. of precious metal jewelry were entering duty-free. If the industry is improving and Israel already has duty-free treatment for jewelry under the GSP, it is difficult to understand how duty-free treatment under an FTA will create problems.

In fact, I believe that U.S. producers will actually benefit through the FTA. Under the current GSP program, jewelry imports from Israel enter the U.S. duty-free. Imports into Israel pay an MFN duty of 12%.

Under a Free Trade Area, duty-free treatment will be reciprocal, and U.S. exports of gold jewelry will no longer face barriers to entry. Moreover, since the European Community, which includes Italy, will soon have in place its fully-phased-in FTA with Israel, U.S. exporters will be on an equal footing with European producers under an FTA. In the absence of an FTA, U.S. jewelry will likely be priced out of Israel's market.

RESPONSE TO SPECIFIC OBJECTIONS OF THE U.S. INDUSTRY

The MJSA may submit similar objections to this body that it voiced recently before the Senate Finance Committee. In anticipation of that submission, I here address several of those objections:

(1) MJSA refers to the objections in 1979 of the division of jewelry categories into five separate T.S.U.S. categories for the Generalized System of Preferences (GSP). The effects of that proposal, it was then argued, would be to allow into the U.S. duty free jewelry products from Israel for a value exceeding $270 million. The fact of the matter is that Israel's jewelry exports to the U.S. during the last three years have increased by approximately only 10 percent per year, a figure comparable to the growth of the U.S. precious metal industry according to SIC 3911. In total value, despite nearly ten years of GSP assistance, Israel is still below $98 million in annual sales.

(2) While Israel currently ranks as the second largest supplier to the U.S. of precious metal jewelry with total sales in 1983 of U.S. $98 million, when this figure is analyzed as a percentage of the total U.S. jewelry (costume and precious metal) turnover at retail prices (10–12 billion dollars), the percentage of Israel's ‘influence" is less than 0.1 percent of the total retail sales in the U.S.A.

As a percentage of imports, Israel reaches only 10–12 percent, not a very substantial figure.

(3) MJSA suggests Israel is putting emphasis on new, less costly, mass-produced machine-made rope chains. This is clearly incorrect since no machine-made rope chains are manufactured in Israel. Israeli manufacture of rope chains is in fact a cottage industry, uniquely and solely using handmade techniques with only six companies in the whole country having an annual turnover of over $1 million per company. (It should be noted here that there is an important difference between gold rope chain, which is made by hand in Israel, and other gold chain, which is made by machine.)

(4) The problems of modernization and competition with the technically advanced Italian industries have affected both the U.S. and Israel. In the last three years, closures in the machine-made chain industry in Israel have resulted in close to a 40 percent reduction in the number of manufacturers of machine-made chain. Today only four machine-made chain manufacturers have a turnover of $1 million per company. In all other jewelry related fields, less than ten companies have exports of over $1 million, and only forty companies employ more than ten people.

(5) Even though Israel's exports of jewelry to the U.S. did not all enter the U.S. duty free, Israel, without pre-conditions, reduced the tariff barriers to zero on im-

ports of precious metal, semi-finished stock and semi-precious metal, semi-finished stock and semi-precious stones. In 1982, 100 percent of such imports entered Israel duty free, and despite statements referring to the negligible value of such exports of jewelry and related articles from the U.S. to Israel, this amounted to $32 million.

(6) According to MJSA's statistics, imports of precious metal jewelry now hold a 25 percent of the U.S. market and imports of gold chain hold a 60 percent share of the U.S. market. In 1983, however, Israel's machine-made chain exports to the U.S. were less than $48 million or about 10 percent of total imports.

(7) MJSA suggests that the U.S. industry is fragmented; however, the Israeli industry is truly in its infancy, having only risen above the $6 million total exports of 1976, a year when U.S. consumption was 1.8 billion dollars.

(8) MJSA makes much of the unemployment in Rhode Island. The employment situation in Rhode Island has been affected by the closure of a few very large manufacturers. Practically all of these manufacturers were involved in the costume jewelry industry. Some unemployment was caused by changes in production systems and by automation of the American industry itself. Above all it should be noted that even in 1981 almost 47 percent of all Rhode Island Jewelry workers were in the costume jewelry industry (SIC 3961) and only 19 percent (SIC 3911) were involved in the precious metal jewelry industry.

In Israel, total exports of costume jewelry to the U.S. did not even reach $46 thousand, hardly a threat to the employment situation in Rhode Island. In Rhode Island and in the U.S as a whole, employment in the jewelry industry actually increased in the years since 1970, with the value of shipments increasing every year. U.S. exports of precious metal jewelry increased 400 percent in the last ten years.

CONCLUSION

Israel requires duty-free treatment for gold jewelry in order to compete with Italian and U.S. producers in the U.S. market. To date, such duty-free treatment has caused *no* adverse impact on the U.S. industry. And continued duty-free treatment under an FTA will in no way increase market penetration.

On the other hand, reciprocal duty-free treatment may allow U.S. producers to better compete in the Israeli market and, in effect, may aid them in their recovery from the previous depressed conditions in the industry.

Statement of David J. Steinberg, President, U.S. Council for an Open World Economy

(The U.S. Council for an Open World Economy is a private, nonprofit organization engaged in research and public education on the merits and problems of developing an open international economic system in the overall national interest. The Council does not act on behalf of any "special interest".)

I support an initiative to program two-way free trade between the United States and Israel. However, I object to formation of a free trade area with Israel alone (or singly with any other country) outside the framework of a U.S. initiative to negotiate a free-trade arrangement with as many other countries as may care to join with the United States in such a venture. Our Council is alone in its advocacy of such a comprehensive U.S. invitation, and of the domestic adjustment and redevelopment strategy required to secure and sustain a definitive, dependable free-trade policy.

If it turned out that Israel were the only country (at least initially) to accept such a U.S. invitation to negotiate a free-trade arrangement, then a strictly bilateral free trade area comprising these two countries would be acceptable as consistent with the trade-policy principles to which we should adhere. This, however, is not the scenario of the current proposal to establish a free trade area with Israel alone. The fact that it appears to have been Israel that initiated the idea of a free trade area with the United States (not the other way around), and that the United States is proceeding with negotiations with Israel on this matter (see Subcommittee on Trade press release #39 of May 11, 1984), does not invalidate the criteria I have advanced with respect to U.S. policy.

Moreover, the United States lacks a domestic adjustment and redevelopment strategy to ensure that all Israeli products would be programmed for free access to the U.S. market in accordance with a realistic timetable, and that these products would be assured continued free access except in a dire emergency for a competing U.S. industry—an emergency where temporary departure from the free-trade commitment might be necessary to buy time for an adjustment strategy. If needed at all, import restraint should be only one component, and even then a measure of last resort, in a coherent adjustment strategy in which government assistance (criteria for which would have to be carefully defined) would be contingent on appropriate commitments by management and labor in the particular industry, aimed at effective industry adjustment to new international economic realities. For its part, Israel itself may not be prepared to program and sustain free access for all U.S. products to the Israeli market, and to make any departure from a free-trade commitment only a temporary measure of last resort limited to emergencies in which coherent industry-adjustment programs would be adopted to restore free-trade status as quickly as possible.

Even if the initiative for a free-trade arrangement between the United States and Israel is limited to the strictly bilateral focus as now seems to be envisaged (rather than pursued in the context of the broader design I have proposed), it should not be undertaken unless both parties are prepared to program removal of all trade barriers affecting their two-way trade, negotiate a complete and totally equitable code of fair competition affecting trade between these two countries, and make every effort to sustain free access for all products with appropriate policies of domestic adjustment and redevelopment (to the extent that government help is justifiable at all). Our country (possibly Israel as well) seems unprepared on both counts.

A free-trade agreement with Israel, or a significant step toward free trade with that country, would enable the United States to lessen the disadvantage for U.S. exports to Israel caused by Israel's quasi-"free trade" agreement with the Economic Community. Lessening and ultimately removing such a disadvantage is something to be welcomed. But this is not sufficient justification for neglecting the trade-policy principles to which we should hold—the standard to which we should diligently be raising the sights of all nations. Successful implementation of a free-trade arrangement with Israel could well be a prototype for successful pursuit of U.S. free trade with a wider array of countries. Whatever free-trade discussions are pursued with Israel should be within the framework of such a wider perspective.

WEGO CHEMICAL & MINERAL CORP.,
New York, NY, May 16, 1984.

Mr. JOHN J. SALMON,
Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, Longworth House Office Building, Washington, DC.

DEAR MR. SALMON: I am writing to indicate the support of Wego Chemical & Mineral Corp. for the establishment of a Free Trade Area with Israel.

Wego Chemical & Mineral Corp. is an importer of chemical products for distribution to user companies in the United States. We are currently importing urea formaldehyde molding powder from Carmel Chemicals Ltd. of Atlit, Israel. These chemicals are used by the electronics industry to produce plastic wiring device products and by the dishware industry, to produce dishes, cups and utensils. The products are also used to a lesser degree to produce plastic bottle caps and buttons. We supply several companies in the United States, including such large companies as General Electric and Westinghouse.

The chemicals (TSUS 445.35) carry a duty of 9.4% ad valorem but are duty-free when imported from Israel by vitue of the GSP.

We have been in the U.S. market for a little over two years. In 1983, our sales of the two products were about 6 million pounds, representing about 6.6% of the U.S. market. Our main foreign competitors are England, Italy, France and Spain. The main market share is held by domestic producers.

The duty-free advantage resulting from the GSP has enabled us to complete with these non-GSP countries. An FTA would, of course, not change the duty treatment of the product, but would assure us that the product when imported from Israel would remain duty-free. Accordingly, we favor a Free Trade Area arrangement.

In connection with such an agreement, I should also note that U.S. producers of chemicals would also benefit. Most of the raw materials used to produce urea formaldehyde and melamine matrials are currently purchased from Sweden, Canada, and the United States. Needless to say, a Free Trade Area agreement would encourage Carmel to import more raw materials from the U.S.A. rather than Sweden and Canada.

I hope the TSPC will find these comments helpful in its deliverations. Should the Committee have any questions about Wego or two chemicals mentioned, I would be most pleased to an answer them.

Very truly yours,

EDWARD KHALILY,
President.

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